




# DOING BUSINESS IN TURKEY

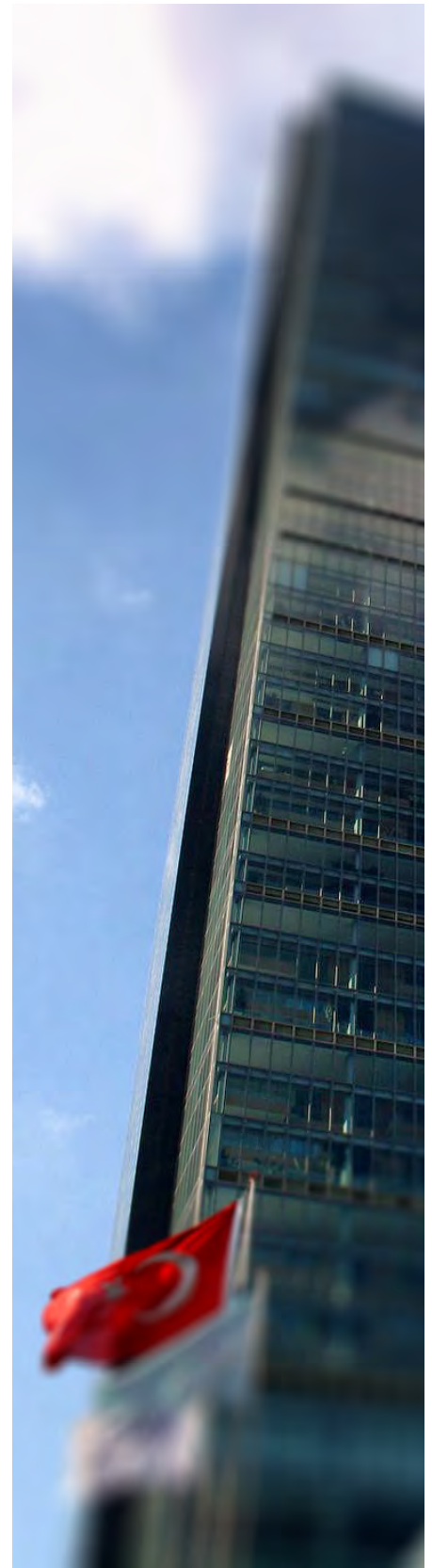
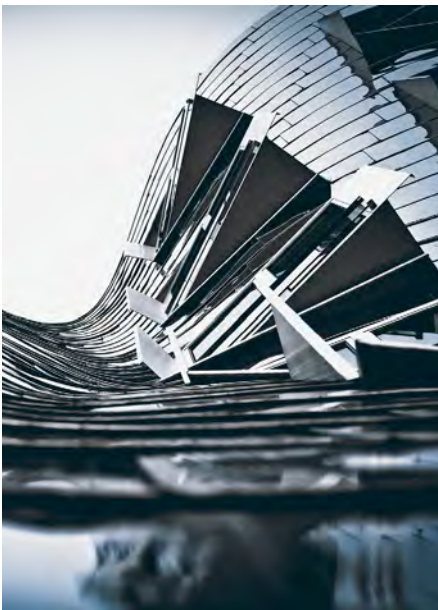


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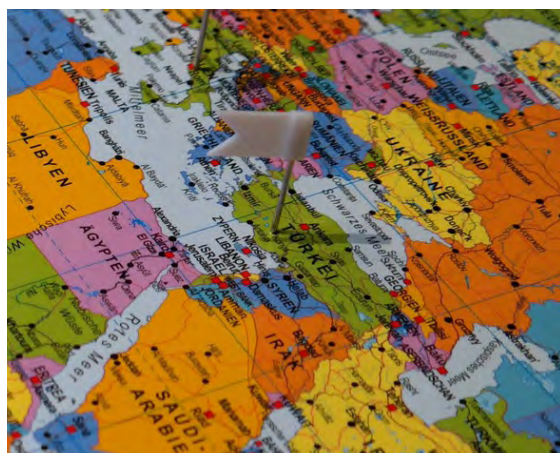
*This Guideline is prepared by Centrum Consulting to present a road map for Investors. The Guideline includes information about, opportunities for Investors/companies and all aspects of Turkish investment environment such as macro-economic indicators, taxation and investment incentives in Turkey.*





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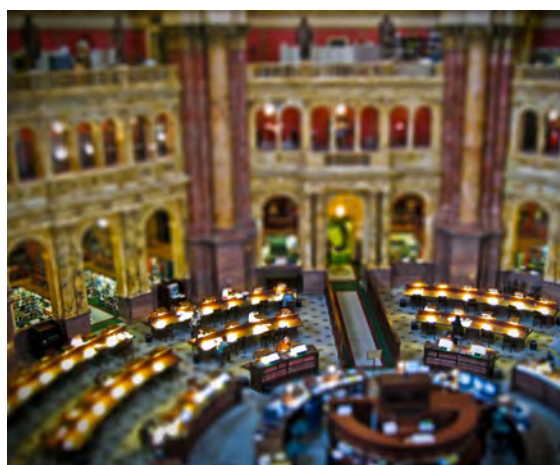
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# TURKEY'S OUTLOOK

## FACTS



**1** Turkey is situated between Europe and Asia, allowing the country to create a link between three continents with over 1.5 billion people and a GDP of USD 25 trillion.

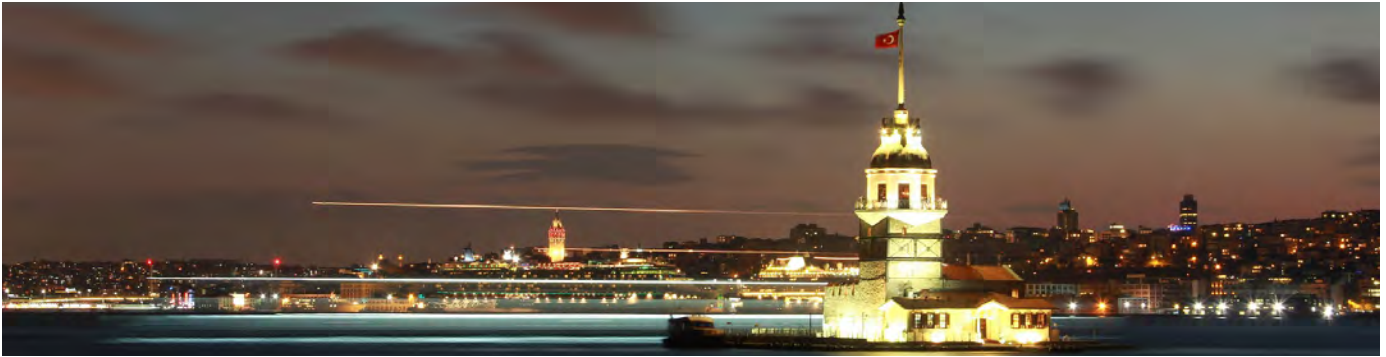
**2** Turkey's geographical location as well as its logistics capabilities, its unique positioning at the intersection of trade routes and its rapidly progressing investment climate are the major factors contributing to Turkey's strategic and regional importance.

**3** Turkey also plays an important role as an energy transit country, oil and gas supplies from Russia, the Caspian region and the Middle East travel through Turkey to Europe.

**4** Investors set up operations in Turkey not just to reach its domestic customers but also to access the surrounding markets of Europe and Asia.

**5** OECD and World Bank forecast that real GDP growth of Turkey raises an annual average of 3.5% until 2020.





## TURKEY: A NEW BUSINESS HUB

Strengths such as its location and large domestic market are helping Turkey to become a center of operations for multinational companies.

Some of large multinationals has started to use Turkey as a regional hub and manage their operations in the North Africa, the Middle East, the Caucasus, Russia and Turkish speaking countries from their regional headquarters in Turkey.

According to YASED (International Investors Association of Turkey), some of the MNEs that use their Turkish branch to manage their operations in surrounding countries are; Alstom, Axa, BASF, Benetton, BMS, Bosch, BP, Citibank, FMC Biopolymer, Coface, Diaverium, General

Electric, Gefco, Hafele, Hewlett-Packard (HP), Hugo Boss, Hyundai, Imperial Tobacco, Ipragaz, ISI, JTI, LG, Lifung, Mapfre, Mercedes-Benz, Metro Group, Microsoft, Pepsi, Pirelli, Procter&Gamble (P&G), Samsung, Schott Orim, Siemens, TeliaSonera, Tetrapak, Unilever, Vaillant and Visa.

There are also many other unlisted foreign companies that set up their regional headquarters in Turkey.

### ISTANBUL INTERNATIONAL FINANCIAL CENTER INITIATIVE

As part of the 2023 goals, the Turkish government's landmark project is to transform Istanbul into a prominent international financial center.

The Istanbul International Financial Center (IIFC) Initiative started in 2009. Its primary objective is to promote Istanbul as a regional financial hub and a center for energy and infrastructure projects.

### Number of Companies Managed from Turkey

	94		30
	80		30
	80	B/S/H/	30
	67		27
	34		26

Source: [www.invest.gov.tr](http://www.invest.gov.tr)

IIFC will enable knowledge to be shared between partners in Turkey and aims to attract foreign companies and elite financial experts by organizing panels and media events.

The USD 2.6 billion project is integral to Turkey's plan to make its economy one of the world's 10 largest by 2023.

IIFC will house the head offices of the country's financial market governing bodies, state-owned and private banks, and related businesses.

It will include approximately 4.2 million square meters of office, residential, retail, conference, hotel and park space.





*Booming  
economy;  
more than  
tripling  
its GDP,  
reaching  
USD 720  
Billion in  
2015, up  
from USD  
231 Billion  
in 2002  
(TurkStat)*

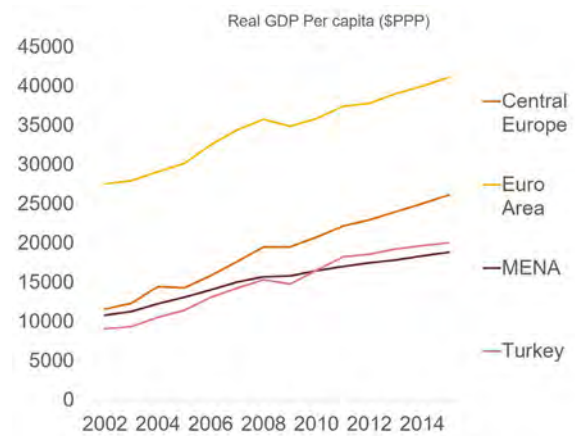


# MACRO ECONOMIC INDICATORS

## COMPARASION OF TURKEY'S GDP

Between 2005-2015:

- Turkey's GDP increased by 45% to USD 720 billion in nominal value.
- Annual average real GDP growth is 3.8%.
- The share of the budget deficit in GDP has fallen from 10% to 0.1%.



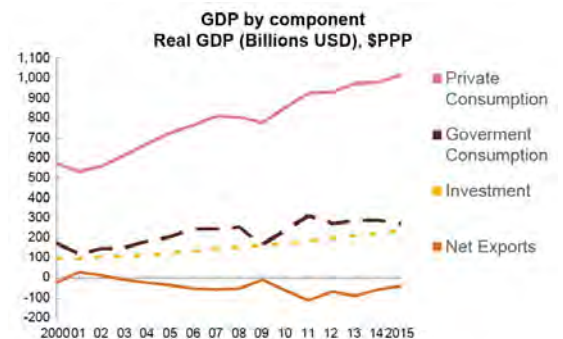
Source: World Bank

In terms of comparasion;

- Compound Annual Growth Rate (CAGR) of Euro Area is 3.1% whereas the same ratio is 6.2% in Central Europe .
- CAGR of Turkey is 6.4% and higher than MENA Region where it is 4.3%.

## GDP BY COMPONENTS

- 3.87% increase in private consumption is observed per annum between 2000 and 2015.
- 6.13% increase in government consumption is observed per annum between 2000 and 2015.
- 3.12% increase investment is observed per annum between 2000 and 2015.
- 3.68% increase in net exports is observed per annum between 2000 and 2015.



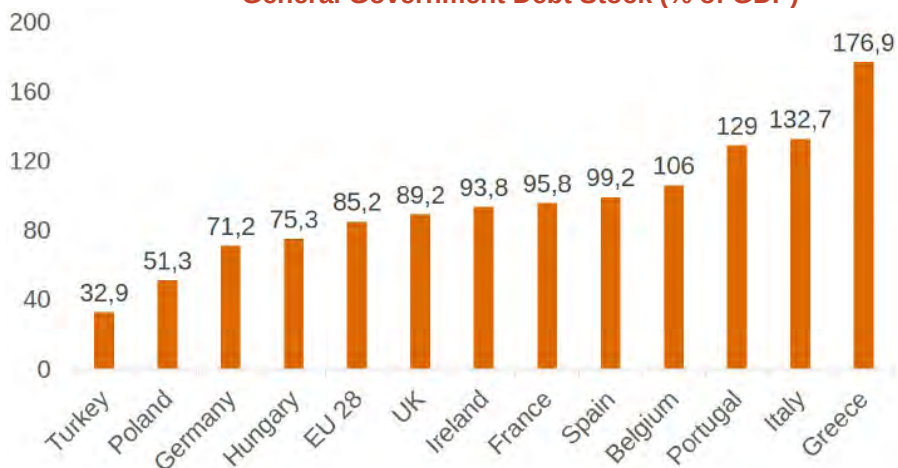
Source: Turkstat





## GOVERNMENT BUDGET INDICATORS

### General Government Debt Stock (% of GDP)

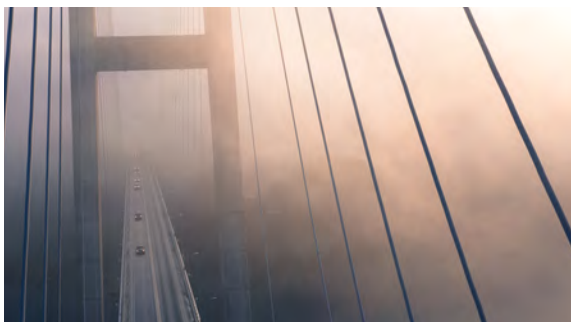


- The share of public debt stock in GDP decreased from 60% to 33%.

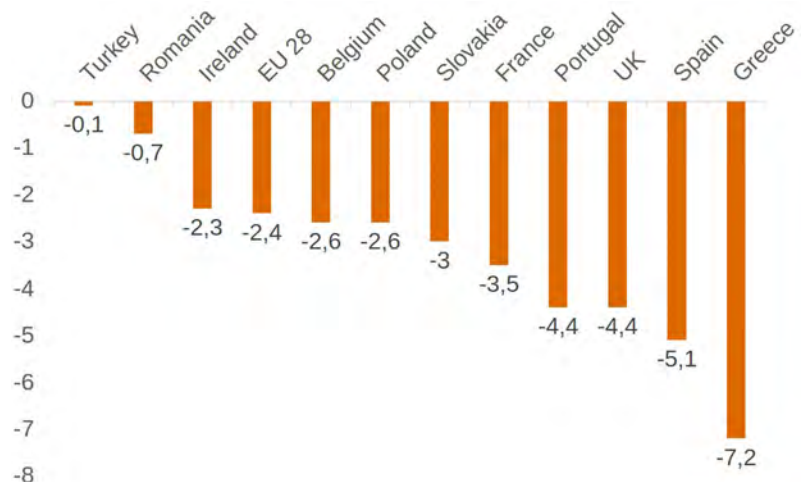


Source: Undersecretariat of the Treasury and Eurostat, 2016

- As can be seen in the chart above, Turkey has lower government debt stock compared many European Countries.



### General Government Budget Balance (% of GDP)



Source: European Commission's Directorate-General for Economic and Financial Affairs (ECFIN) and Eurostat, Ministry of Finance, 2016

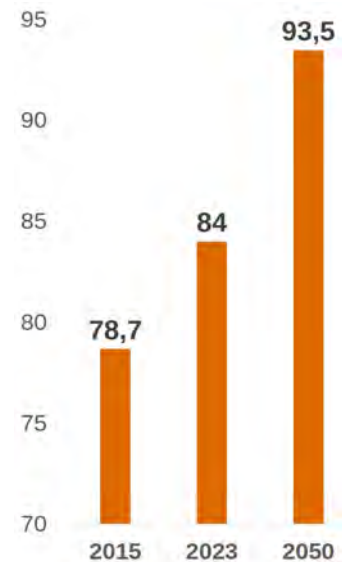




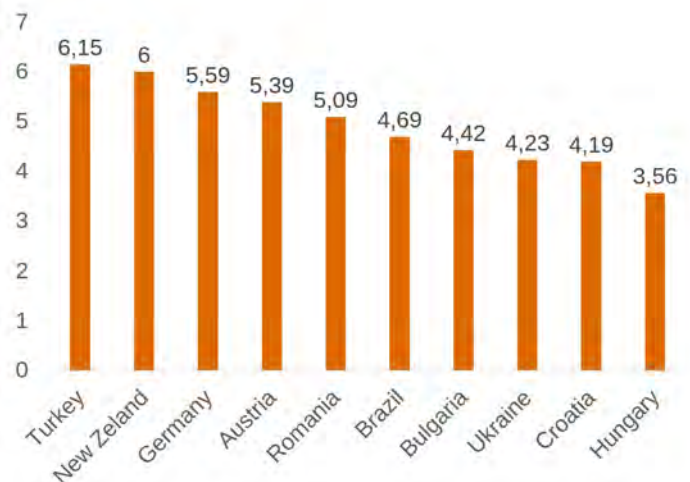
## POPULATION

- Population in Turkey was 78.7 million in 2015.
- It is expected that the population will increase to 84 million in 2023 and 93,5 in 2050 according to Turkish Statistical Institute (TUIK).
- Turkey has the youngest population across the Europe.
- Turkey is the third largest labor force market of Europe with a labor force of 29.7 million people.
- Turkey had 198 universities and 801.498 university graduate in 2015.
- According to IMD World Competitiveness Executive Opinion Survey, Turkey scored 6.15 based on an index from 0 to 10 in terms of availability in skilled labor in 2016.
- In this regard, comparison of Turkey with other countries can be seen in the following chart.

Population In Turkey



Source: Turkish Statistical Institute (TurkStat)

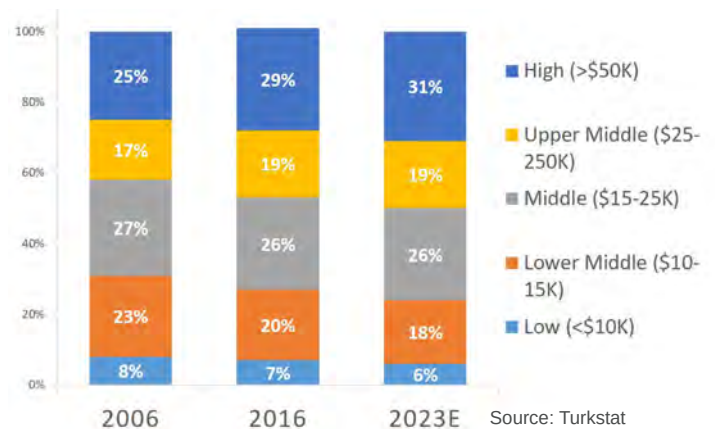




## SHARE OF HOUSEHOLDS

### Share of Households in Each Income Bracket

- Percentage to population of high and upper-middle income classes of Turkey is increased from 42% to 48% in last ten years.
- It is expected that aforementioned percentage will be 50% in 2023.

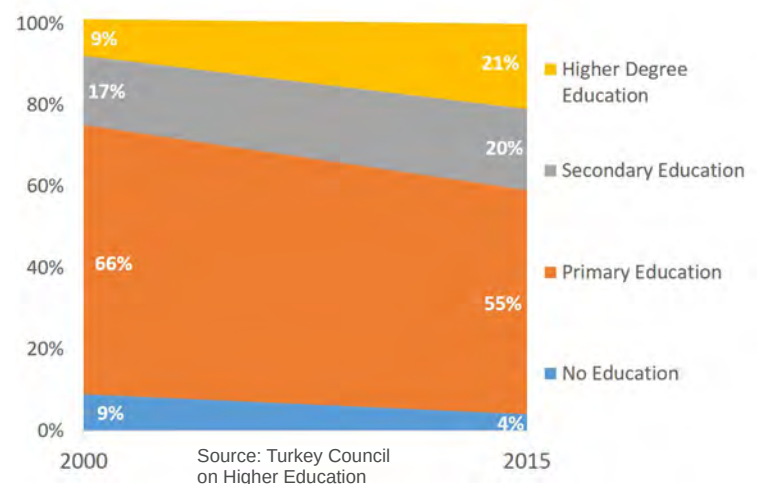


## EMPLOYMENT

- Percentage to population of high and upper-middle income classes of Turkey is increased from 42% to 48% in last ten years.
- It is expected that aforementioned percentage will be 50% in 2023.



### Share of Households in Each Income Bracket



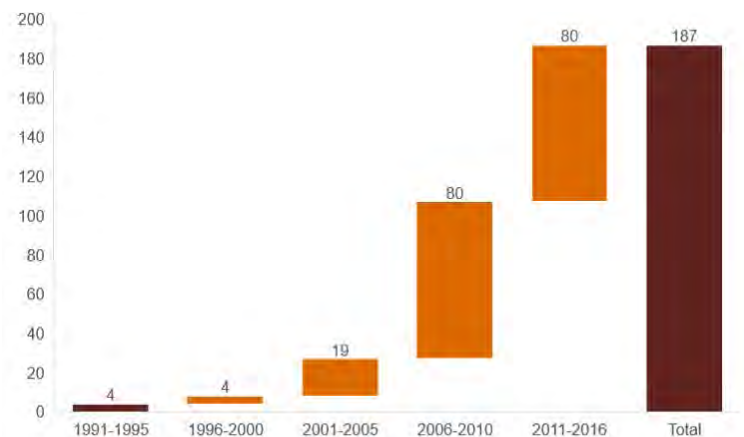




## DIRECT FOREIGN INVESTMENT

- Total net foreign direct investment in Turkey equals to 160 Billion USD for last ten years.
- When compared, total net foreign direct investment in Turkey made in last ten years is almost 6 times higher than that of in the years between 1991 and 2005.

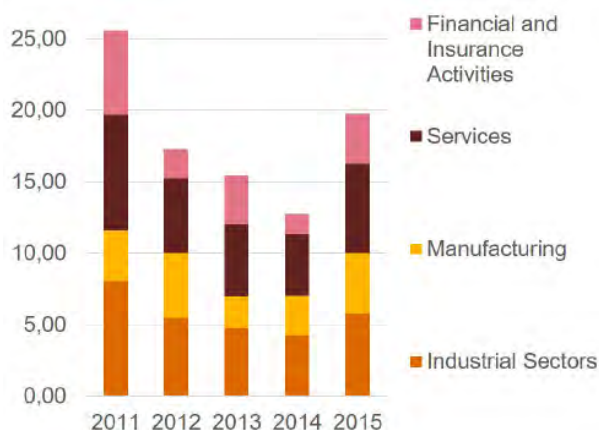
Net Foreign Direct Investment (Billion \$)



Source: World Bank; Press Survey

## FDI FLOW BY SECTORS

### IMD World Competitiveness Executive Opinion Survey



Source: Central Bank of the Republic of Turkey

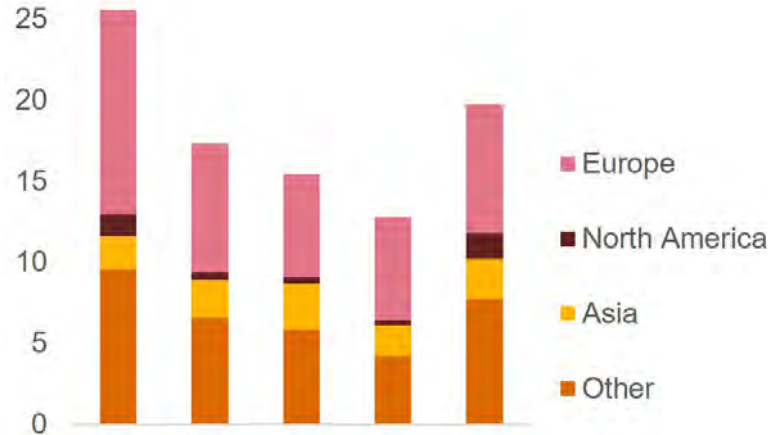
- Most of the foreign direct investment to Turkey is made to service industry in 2015.
- FDI for financial and insurance activities is increased in 2015 when compared to the previous years (i.e. between 2012 and 2014).

## GEOGRAPHIC BREAKDOWN OF FDI

- The majority of the FDI inflows to Turkey come from Europe and North America.
- It is clear that in recent years Asian countries e.g. China have increased their FDI especially for public projects.



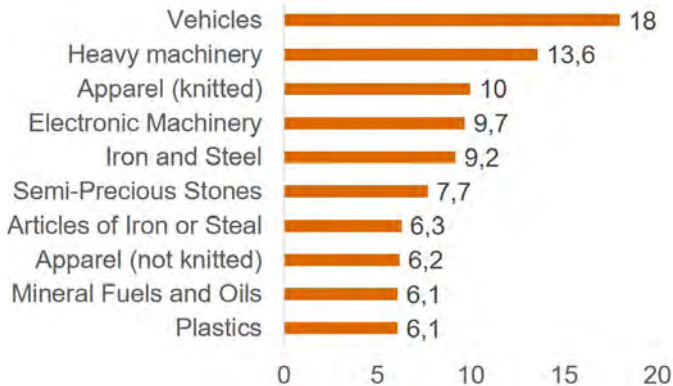
FDI Inflow to Turkey by Sector



Source: Central Bank of the Republic of Turkey

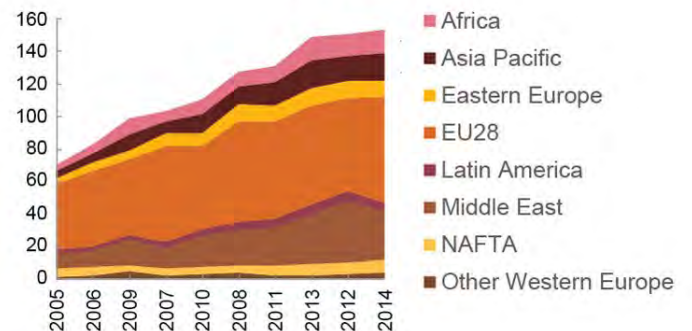
## TURKEY'S EXPORT

Top Ten Export Items (Billion USD)



Source: Global Insights, UN Statistics Division

Exports by Region (\$USD billions)



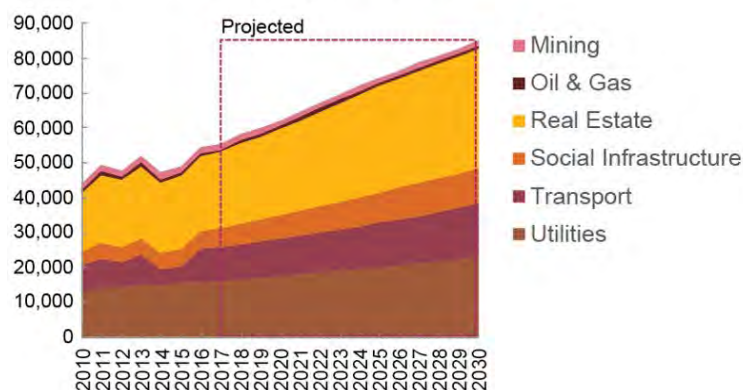
Source: Global Insights, UN Statistics Division

- Export of vehicles in Turkey, which has the highest amount across export items, equals to 18 Billion USD.
- Export of heavy machinery in Turkey, which has the second highest amount across export items, equals to 13.6 Billion USD.
- Export of apparels in Turkey, which has 3rd highest amount across export items, equals to 10 Billion USD.
- Most of the exports have been made to EU 28 and Middle East in recent years.



## INFRASTRUCTURE SPENDINGS

(Billion USD)



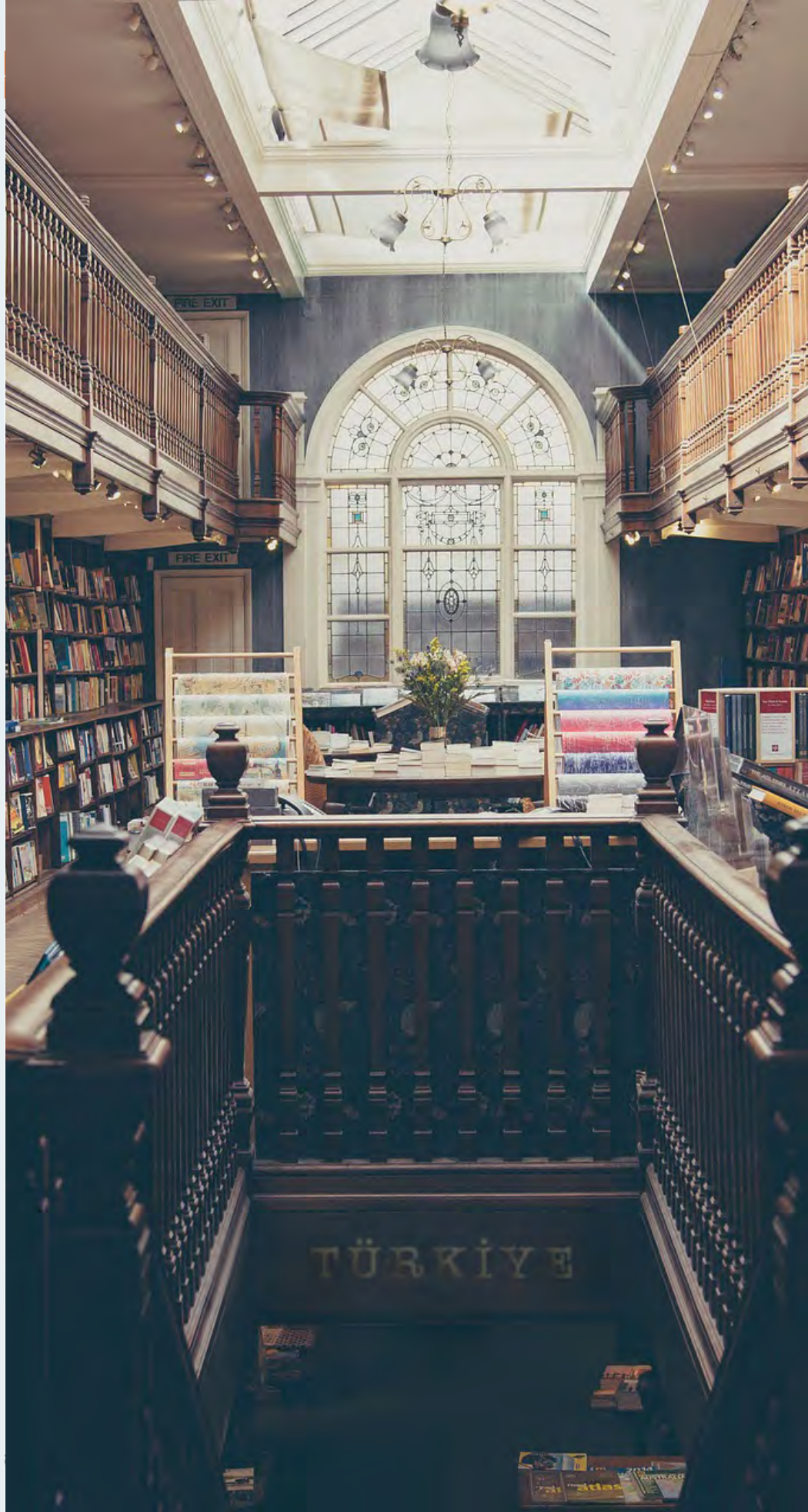
Source: Global Insight, International Transport Forum, Global Water Intelligence, World Energy Outlook, National Accounts

- Real Estate is projected to receive 40% of the investment.
- Utilities is projected to receive 27% of the investment
- Transport is projected to receive 17% of the investment
- Social Infrastructure is projected to receive 11% of the investment
- Utilities 27%, transport 17%, social infrastructure 11%.

## PLANNED MAJOR PUBLIC PROJECTS

Project	Sector	Size (\$USD, Billions)
Akkuyu Nuclear Power Plan	Energy	20
Healthcare Campus Projects (Total)	Social Infrastructure	16.1
Sinop Nuclear Power Plant	Energy	16
Third Istanbul Airport	Transportation / Airports	6.9
Gebze - Izmir Motoway	Transportation / Roads	6.3
Dardanelles Bridge & KinahBalikesir Motorway	Transportation / Roads	6
Eskisehir Coal Fired Power Plant	Energy	5
Ankara - Istanbul HSL	Transportation / Railways	3.9
Istanbul Big Tunnel	Transportation / Roads	3.5
NMM - Third Bridge	Transportation / Roads	3.4
NMM - Asian Sections	Transportation / Roads	1.7

*Liberal and  
Reformist  
Investment  
Climate  
with Highly  
Competitive  
Investment  
Conditions*





# LEGAL ENVIRONMENT

## LEGAL SYSTEM

### Judicial System

The Republic of Turkey has adopted the “Principle of Separation of Powers” in its constitution.

In line with this principle, judicial power is exercised by independent courts on behalf of the Turkish nation. (Article 9 of the Turkish Constitution)

Independence of courts, security of tenure of judges and public prosecutors, organization of courts, the profession of judges and prosecutors, supervision of judges and public prosecutors, military courts and their organization, powers and duties of high courts are regulated by the Constitution. (Articles 138-160 of the Constitution)

According to Article 142 of the Constitution; the organization, duties and jurisdiction of the courts, their functions and trial procedures are regulated by law.

### Court System

There are two types of courts in Turkish Court System, which are judicial courts and administrative courts.

Both for civil and criminal cases, first instance courts are basic judicial authorities to settle disputes.

The competences of Civil Courts of Peace, Criminal Courts of Peace and Heavy Criminal Courts are exceptionally defined by this Law and other related laws.

There are specialized courts both in civil and criminal fields and their establishment and competences are also regulated by laws.

Administrative courts deal with cases which are brought against the administrative bodies by virtue of implementation of the administrative legislation. Tax courts deal with tax disputes.

## TURKISH COMMERCIAL CODE

### Basic Principles of the Commercial Code are:

- Corporate governance (Board of Directors)
- Accountability (Independent audit and transaction audit)
- Transparency (Webpage)
- Liability Law Compensation and Insurance Law

### Under Turkish Commercial Code, following type of companies can be established:

- Joint Stock Company
- Limited Liability Partnership
- Cooperative Company
- Collective Company
- Commandite Company

A single shareholder is sufficient to establish a joint stock company ("JSC") and limited liability partnership ("LLP"). A LLP may not have more than fifty shareholders. No such limitation for number of shareholders is applicable for JSC. Under both company types, single shareholder or shareholders may be real persons or legal entities.

The minimum capital requirement is TRY 50.000 (Approx. 12,500 USD) for joint-stock companies whereas this amount is TRY 10,000 (Approx. 2,500 USD) for limited liability partnerships.

Each shareholder has the authority to review the company's books at will.

Real estate and copy rights can also be set as capital.

As of 1st January 2013, Turkish Financial Reporting Standards (TFRS), which complies with the International Accounting Standards (IAS), were commissioned.

With the introduction of renewed commercial code, the valuation metric become aligned with the IAS.

Commercial profit and financial profit has come closer with the new Turkish Commercial Code.

### STATUTORY AUDIT

The financial statements of the corporations subject to the statutory audit shall be audited by the auditor in accordance with the Turkish Auditing Standards complying with the International Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Institution.

Whether the financial information included in the annual report of the board of directors is consistent with the audited financial statements and whether it reflects the reality is also included in the audit scope.

### For year 2017, the companies meeting at least two of the following criterion shall be subject to independent audit;

- Total asset size of TRY 35 million or more.
- Annual net sales revenue of TRY 70 million or more.

- Minimum of 150 employees or more.

Following corporations determined by the Institution of Public Oversight, Accounting and Auditing Standards have to apply Turkish Accounting Standards (TMS), which have become in line with International Accounting Standards (IAS) within new Turkish Commercial Code (TCC), and Turkish Financial Reporting Standards (TFRS), which are in line with International Financial Reporting Standards (IFRS) within new TTC.

- Banks and their subsidiaries, which are defined in the Banking Law,
- Insurance and reinsurance companies defined in the Insurance Law
- Pension companies defined in the Private Pension Savings and Investment System Law

*Turkey has a dynamic and mature private sector with USD 144 Billion worth of exports and an increase of 400 percent between 2002 and 2015 (TurkStat)*



## SOCIAL SECURITY SYSTEM

### SOCIAL SECURITY SYSTEM

The social security system in Turkey is based on centralizing the control of different social security funds in a single institution (Social Security Institution/SGK)

### Social Security Premium Payments

Social security contributions (calculated as a percentage of the employee's gross earning) can be paid by both the employer and the employee.

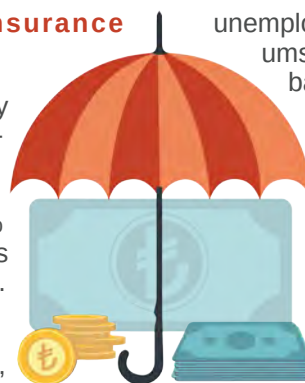
Foreigners making social security contributions in their home countries do not have to pay the Turkish social security premiums if there is a reciprocal agreement between the home country and Turkey.

Social security premiums paid by employers and employees are as in the table shown right hand side.

### Unemployment Insurance Premium Payments

Employees must pay unemployment insurance contribution premiums at 1%, employers 2% and state 1% over the employee's monthly gross earnings.

Similar to social security premium payments,



unemployment insurance premiums must be paid on a monthly basis.

Employers may deduct such contributions from taxable income.

On the other hand, employees' contributions can not be deducted from the income tax base.

### Social Security Premiums (Office Workers)

Type of risk	Employer's share (%)	Employee share (%)	Total (%)
Short-term risks	2	-	2
Long-term risks	11	9	20
General health insurance	7,5	5	12,5
Unemployment insurance contribution	2	1	3
Total	22,5	15	37,5

## FOREIGN INVESTMENT LEGISLATION

### The Law on Foreign Direct Investments

#### Objective of the Law is:

- Promote foreign direct investment in the country
- Protecting the rights of investors
- To bring the definitions of investors and investments to international standards
- To establish a notification-based system instead of a system based on it for foreign direct investments

- Increase the volume of foreign direct investments through established policies and procedures

The FDI Code makes a definition of foreign investors and foreign direct investments.

This law also explains the important principles of foreign direct investment such as freedom of investment, national treatment, expropriation and nationalization, free transfer of profits, national and international arbitration and alternative dispute settlement methods, valuation of non-cash capital, employment of foreign personnel and liaison offices.

### Bilateral Agreements for the Encouragement and Protection of Investments

The main objective of bilateral investment agreements is to establish a positive environment for economic cooperation among contracting parties by setting standards for the treatment of investors and investments within the borders of the countries concerned.

These agreements aim to provide a stable investment environment by increasing the flow of capital between contracting parties. In this context, up to now, 75 of the 94 Bilateral Agreements have entered into force in Turkey.



## LABOUR LAW

The working conditions in Turkey are mainly regulated by the Labour Law and the Trade Union Law.

**Under the Labor Code, there are different types of employment contracts:**

- Employment contracts for “temporary” and “permanent” work
- Employment contracts for a “definite period” or an “indefinite period”
- Employment contracts for “part-time” and “full-time” work
- Employment contracts for “work-upon-call”
- Employment contracts with a trial period
- Employment contracts constituted with a team contract

Under the Labor Law, the normal working time is maximum 45 hours per week. In principle, this 45-hour period is equally distributed to working days. However, in accordance with the Labor Law, the employer may arrange the working time within the legal limits. Payments for hours exceeding the



45-hour weekly working time limit are, as a rule, made within the “overtime period”.

The fee for each extra hour of work shall be paid by a fifty percent increase of the normal working rate per hour.

Vacation period according to years of work for an employee in Turkey is listed in the table below:

Years of Work	Minimum Paid Vacation Period
1 - 5 years (inclusive)	14 working days
5 - 15 years	20 working days
15 years (inclusive) or longer	26 working days

*Turkey has Over 29.7 Million young, well-educated and motivated professionals (2015, Turkstat). Approximately 733,000 students graduate annually from over 193 universities and 950,000 students graduate annually from vocational and technical high schools. (2015, Ministry of National Education)*



*Around  
46,800  
companies  
have  
international  
capital  
in 2015  
(Ministry of  
Economy).  
Turkey  
offers equal  
treatment  
for all  
investors.*

Administration

Corporate Services

Reinsurance

Legal

# BUSINESS STRUCTURES IN TURKEY

**Business structures in Turkey can be divided into three categories:**

- Corporate Forms
- Non-corporate Forms
- Alternative Business Structures

## CORPORATE FORMS

### Joint Stock Company (JSC)

A joint stock company is a company whose capital is fixed and divided into shares, and which is solely responsible for its assets due to its debts.

Shareholders are solely responsible for the capital shares they are committed to.

In accordance with the Turkish Commercial Code No. 6102, minimum capital should be TRY 50.000 at the establishment of joint stock companies. For publicly held joint stock companies that have accepted the registered capital system, the minimum capital must be TRY 100.000.

Based on the Law, minimum number of shareholders of a JSC is one, which means one real or legal person can form a JSC alone provided that the necessary conditions are fulfilled.

### Limited Liability Partnership (LLP)

A LLP is established under a trade name by one or more real or legal persons.

The main capital of LLP is fixed, which is the sum of the principal capital shares.

Shareholders are not responsible for company debts in LLP structures. They are obliged to only pay the basic capital shares they commit and to fulfill the obligations of supplementary payment and additional liabilities anticipated in the partnership agreement.

In accordance with the Turkish Commercial Law, minimum capital should be TRY 10.000 at the establishment of LLPs. Minimum number of shareholders of a LLC is one while the maximum is fifty real or legal person.





*Turkey has a business-friendly environment with an average of 7.5 days to set up a company, while the average in OECD countries is more than 15 days (World Bank Doing Business Report 2016). Turkey is the 2nd biggest reformer among OECD countries in terms of its restrictions on FDI since 1997 (OECD FDI Regulatory Restrictiveness Index 1997-2015)*

## Cooperative Company

In accordance with Cooperatives Law No. 1163, cooperative companies shall be subject to various shareholders and capital structures established by private administrations, municipalities, villages, societies and associations in order to provide and protect the specific economic interests of the shareholders, especially their occupations and livelihoods, by means of mutual aid, solidarity and surety.

There is no minimum or maximum limit for capital in cooperative companies.

7 or more real or legal person is required to form a cooperative company according to aforementioned law.

## NON-CORPORATE FORMS

### Collective Company

A collective corporation is an entity established between real persons, with the intention of operating a commercial business under a trade name.

All shareholders of a collective company are personally liable to company's creditors.

There is no minimum capital requirements for collective companies as mentioned in the Turkish Trade Code.

## Commandite Company

Commandite company is established to operate a commercial business under a trade name, and liabilities of one or more of its shareholders are not restricted while liabilities of other shareholders are restricted to a certain capital.

Only real persons can be limited shareholders while only legal persons can be unlimited shareholders in this company structure.

The main capital of commandite company is fixed, which is the sum of the principal capital shares.

## ALTERNATIVE BUSINESS STRUCTURES

### Branches

No shareholder is required. It is not an independent legal entity and its duration is limited to the duration of the parent company. No capital requirement exists, however, it would be appropriate to allocate a budget for the operations of a branch Office.

A branch office may be incorporated only for the same purposes as those of the parent company. Repatriation of branch profit is allowed under the Turkish Law. The branch profit transferred to the headquarters is subject to dividend withholding tax at a rate of 15

percent, which may be reduced by double tax treaties.

In order to form a branch in Turkey, it is required to register at the Trade Registry Office.

## Liaison Office

Main activity of a liaison office must be limited to conduct market research and feasibility studies and to oversee investment opportunities in the Turkish market on behalf of the parent company.

Liaison offices are not allowed to carry out any commercial activities in Turkey.

It is required to obtain permit from the Ministry of Economy, General Directorate of Incentive Implementation and Foreign Investment to establish a liaison office in Turkey.

The initial permit is issued for three years and can be extended depending on the activities in the past three years and the future plans of the parent company.

Applications of international investors to establish liaison offices to operate in sectors that are subject to special legislation are assessed by the relevant government authorities.

The condition of being operational for at least one year might be sought for permit.

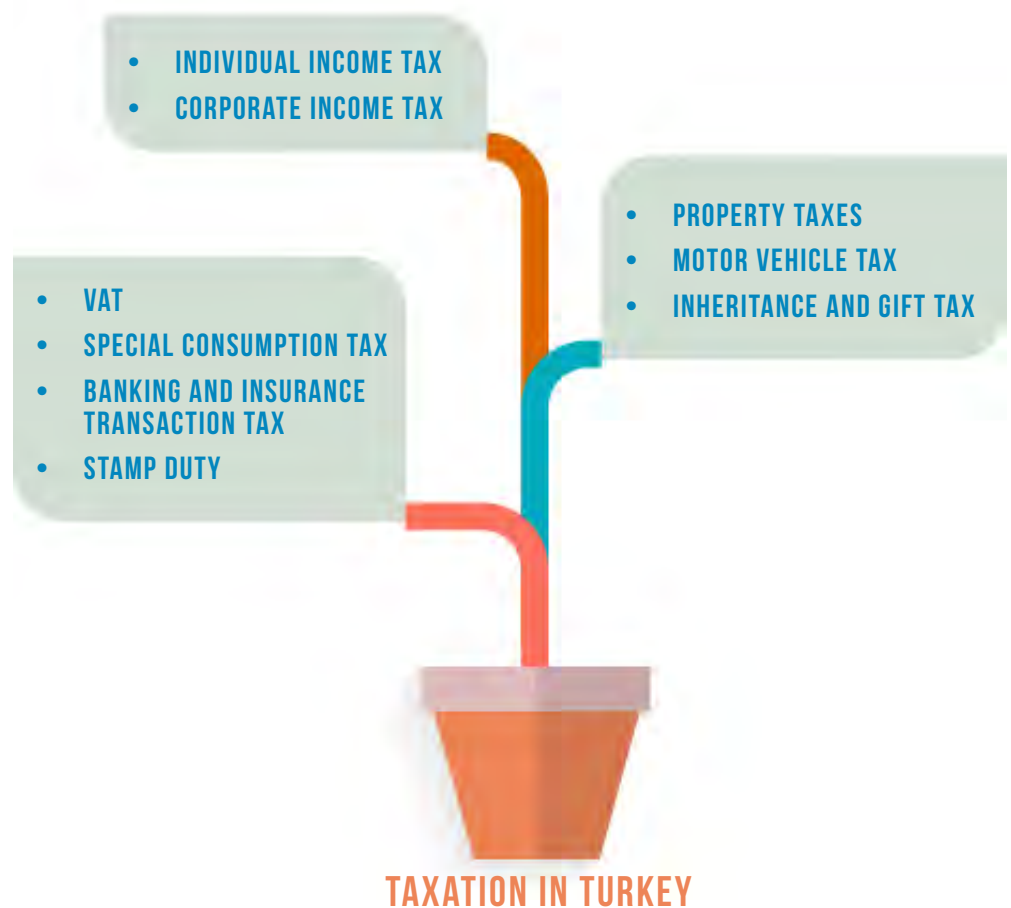
*Turkey is  
a natural  
bridge  
between  
both East-  
West and  
North-South  
axes, thus  
creating  
an efficient  
and cost-  
effective  
outlet to  
major  
markets.*





# TAXATION IN TURKEY

“ Turkey is a member of OECD and G-20, and implements joint resolutions regarding international tax issues. In addition, Turkey has signed tax treaties with 84 countries to prevent double taxation.



## INCOME TAXES

“ According to Individual Income Tax Law, income may consist of the following elements:

- Business profits
- Agricultural profits
- Salaries and wages
- Income from independent personal Services
- Income from immovable property and rights (rental income)
- Income from movable property (income from capital investment)
- Other income and earnings

### INDIVIDUAL INCOME TAX

Real persons' income is subject to individual income tax. Income is defined as the net amount of all earnings and revenues derived by an individual within a single calendar year.

Individual income tax of resident-taxpayers and non-resident taxpayers is evaluated differently in Turkish Tax Legislation.

**Resident Tax Payers (Unlimited Tax Liability):** Taxed on their earnings and incomes derived in and outside Turkey

Residence in Turkey: presence in Turkey more than 183 days during consecutive 12 months to which the income relates.

Nationality: Turkish citizens living abroad and working for government or governmental institutions or a company whose headquarter in TR.

**Non-residents (limited tax liability):** Subject to tax on income derived from sources in Turkey. Income scales representing individual income tax rates in 2017 are listed in the table below:

### INDIVIDUAL INCOME TAX: DEDUCTIONS

#### Minimum Living Allowance

The minimum subsistence reduction is applied when the fee is taxed in the actual procedure. A minimum living allowance is calculated over the annual gross amount of the minimum salary applicable to employees over 16 years old at the beginning of the calendar year when the salary is obtained. 50% for the taxpayer himself, 10% for the wife who is not working and has no income, for each of the children separately; 7.5% for the first two children, 10% for the third child and 5% for the other children is applied to aforementioned gross amount.

#### Personal insurance premiums

Personal insurance premiums such as death, accident, sickness, illness, disability, maternity, birth and college and 50% of premiums paid to life insurances belonging to tax payers, their spouse and their children can be deducted from income declared in income tax return, provided that it does not exceed the annual amount of the minimum wage in force and 15% of declared income.



Income Scales (TRY) (Employment Income)	Rate (%)	Income Scales (TRY) (Non-Employment Income)	Rate (%)
Up to 13,000	15	Up to 13,000	15
13,001-30,000	20	13,001-30,000	20
30,001-110,000	27	30,001-70,000	27
110,001 and over	35	70,001 and over	35



### Education and health expenditures

Education and health expenditures made in respect of the taxpayer himself, his wife and his young children can be deducted from income declared in income tax return, provided that they do not exceed 10% of declared income and the documents are obtained from real or legal persons having income or corporation tax liability in Turkey.

### Donations and grants

Donations and grants to public and private budgetary administrations, special provincial administrations, municipalities, associations working in public interest and ministers granted tax exemptions by the Council of Ministers can be deducted from income declared in income tax return, provided that it does not exceed 5% of declared income.

Donations and aids to student dormitory, nursery school, nursing home, nursing home, care and rehabilitation center, worship places, facilities provided with extensive religious education youth and scouting camps can be deducted from income declared in income tax return.

The entire cost of food, cleaning, clothing and fuel materials donated to the associations and foundations engaged in food banking activities in the framework of the procedures and principles determined by the Ministry of Finance can be deducted from income declared in income tax return.

All donations and grants made to the aid campaigns initiated by the Prime Ministry or by the Council of Ministers can be deducted from income declared in income tax return.

All donations and grants made to Turkey Red Crescent Society and Turkey Green Crescent Society can be deducted from income declared in income tax return.

### Disability deductions

Monthly amounts determined on the basis of disability grades can be deducted from the salary of the employees who lost their working abilities.

### Enterprise funds reserve

The portion of the enterprise funds reserve that does not exceed 10% of declared income can be deducted from income declared in income tax return.

### INDIVIDUAL INCOME TAX: EXEMPTIONS

Self-employment incomes gained from poetry, story, novel, article, scientific research and reviews, computer software, interview, cartoon, photography, film, video band, radio and television screenplay are exempt from individual income tax.

The part of the income belonging real persons, who are fully-liable individual income taxpayers paying income tax for the first time in their names due to their commercial, agricultural or professional activity and have not completed their twenty-nine years of age as of the beginning of the taxable period, up to 75,000 TRY during the first three taxation periods starting from the calendar year is exempt from individual income tax.

For year 2017, 3.900 TRY of revenue obtained within a calendar year from the leasing of real property used as residence is exempt from income tax.

Payments of annual insurance premiums paid for at least ten years or a lifetime are fully exempt from income tax.

Half of the income mentioned below from resident corporations is exempt from individual income tax:

- Gains from participation shares
- Dividends paid to the chairman and members of the executive board of the institutions
- Dividends of all kinds of shares

Dividends gained from all kinds of tax exempt securities with special laws issued prior to 1 January 1986 are exempt from individual income tax.





*In accordance with the General Income Tax Communiqué No: 243, the bonus shares issued by the Company to its shareholders due to capital appreciation of the capital and profit reserves (from internal sources) will not be declared as dividend income by the real person shareholders.*

### INDIVIDUAL INCOME TAX: DIVIDENDS TAXATION

In essence, half of the gross dividends obtained from resident corporations is exempt from income tax. If the remaining half of the gross profit share obtained in 2017 is more than 30,000 TRY, declaration will be made.

However, while half of the total gross dividend income is declared, all withholding payments made by means of the corporation that distributes the dividend will be deducted.

The dividend income obtained from the corporate income before 31.12.1998 will be exempted from income tax and it will not be declared in any way.

In dividend income derived from the distribution of exceptional profits from the corporate income tax obtained from 01.01.1999 to 31.12.2002 and dividend income from distributing corporate income which is subject to withholding tax deductions in accordance with Article 61 of the Individual Income Tax Law;

- 1/9 of the net dividend will be added to the dividend amount in order to reach gross dividend amount.
- If half of the gross dividend

amount determined in this case exceeds 30,000 TRY, half of the calculated gross dividend amount shall be declared.

- 1/5 of the gross dividend amount included in the declaration will be deducted from the income tax calculated on the declared dividend income.
- If the gross amount of the dividend income obtained in 2017 from companies located abroad is exceeds 1,600 TRY, it will be declared as a whole and deducted from the income tax calculated on the declaration provided that it is proved if there is tax cut off abroad.

In accordance with the General Income Tax Communiqué No: 243, the bonus shares issued by the Company to its shareholders due to capital appreciation of the capital and profit reserves (from internal sources) will not be declared as dividend income by the real person shareholders.

### INDIVIDUAL INCOME TAX: RENTAL INCOME

Residence rental incomes are not subject to withholding tax.

The exemption set out in Article 21 of the Income Tax Law for residence rental incomes shall be

applied as 3.900 TRY annually for the housing rent incomes obtained in 2017.

If the housing rent incomes which is not subject to withholding tax do not exceed the aforementioned exemption amount, they will not be included in the declaration even if the return is given due to other incomes.

The sum of the gross amounts of the gains and revenues obtained in the determination of whether the exemption shall be applied to the rental income of the residence shall be taken into consideration.

Unlike residence rental incomes, office rental incomes are subject to withholding tax.

If the gross amount of the rent income obtained in 2017 and taxed by means of deduction exceeds 30,000 TRY, a declaration will be given for the whole amount.

If the gross rental amount does not exceed the limit, these incomes will not be declared.

Office rental income will be included in the tax return in case the total income subject to declaration exceeds 30,000 TRY, even if the rent of the workplace alone is below 30,000 TRY.



## INDIVIDUAL INCOME TAX: CAPITAL GAINS TAX

Capital gains specified in the PIT Law are as follows:

- Earnings obtained from disposition of securities and other capital market instruments, except the shares that are acquired without consideration and those that belong to fully taxable corporations, and which have been kept for more than two years,
  - Earnings arisen from disposal of the rights enumerated in paragraph 5 of the first subsection of Article 70 of the PIT Law (excluding patent rights),
  - Income exceeding certain amount of Turkish Lira from the selling of intellectual rights
- which are treated as immovable property for tax purposes,
- Income from the selling of participation rights and shares,
  - Profits from the wholly or partly alienation of an enterprise which ceased its operations,
  - Profits derived from the alienation of land, buildings, the rights to operate mineral deposits, sources and other natural sources, fish farming facilities, the rights registered as immovable property, and ships, boats, aircraft and other transportation vehicles, within five years after their acquisition,
  - 75% of capital gains derived by corporate taxpayers from the disposal of shares owned for at least two years qualify for tax exception.



## CORPORATE INCOME TAX

**“** Corporate taxpayers that are subject to corporate income tax are listed below:

- Capital companies
- Cooperatives
- Public economic enterprises
- Economic enterprises owned by associations and foundations
- Joint ventures

### CORPORATE INCOME TAX

Residents (unlimited tax liability): If legal seat or the place of head office is in Turkey.

Non-residents (limited tax liability): If a non-resident corporate conducts business through a branch (PE) or a joint venture in Turkey.

Corporate tax rate is 20% in Turkey.

In addition, dividends paid by resident corporations to shareholders are subject to 15% withholding tax while dividends paid by resident corporations to resident corporations are subject to 0% withholding tax.

Likewise, non-resident corporations pay 15% withholding tax when allocating profits to their headquarters.





## CORPORATE INCOME TAX: EXEMPTIONS

## Exemption for resident joint-stock companies to dispose of foreign participation shares

75% or more of the total assets excluding cash assets for at least one year in a continuous manner as of the date of acquisition and the corporate earnings, which are gained by a joint-stock company as a fully liable taxpayer consisting of at least 10% of the capital of each of the companies that are not fully taxpayers or limited liability companies, arising from the exclusion of the foreign participation shares kept in the assets for at least 2 full years have been exempted from the corporation tax.

## Exemption for premium on issued shares

If the joint stock companies' shares that are released in the establishment phase or when they increase their capital are sold out by them for a price that is higher than nominal value, the profits generated from the said transaction are exempted from corporate income tax.

## Exemption related to the earnings of investment funds and investment trusts established in Turkey

- The earnings of securities investment funds or investment trusts arising from portfolio management,
- The earnings arising from the portfolio management of investment funds or investment trusts based on gold and precious metals traded on the stock exchanges established in Turkey,
- The earnings of venture capital investment funds or trusts,
- The earnings of real estate investment funds or trusts,
- The earnings of pension investment funds, earnings of housing financing funds and asset financing funds

are exempt from corporate income tax provided that investment funds or trusts are established in Turkey.

## Exemption for Business Offices and Permanent Establishments located abroad

Following conditions are required in order to have a corporate tax exemptions for corporate income obtained through business offices or permanent establishments located abroad:

- According to the tax laws of the country, at least 15% of income and corporate tax-related total tax burden,
- Transferring the profit of the relevant accounting period until the tax declaration is due,
- If the principal activity of the participating company is finance, inclusive of financial leasing, provision of insurance services or investment in securities, having similar corporate tax rate with Turkey.





## **CORPORATE INCOME TAX: CARRY-FORWARD LOSSES AND THIN CAPITALISATION**

### **Carry-Forward Losses**

In the corporation tax declaration, losses related to previous years can be deducted from corporate income provided that the amounts related to each year are registered in the legal books separately and they are not transferred for more than 5 years.

The losses of the corporations which have not exceeded the amount of equity as of the date of transfer of shares and the losses of the capital of the corporations which are divided by the result of full split of the shares can be reduced from corporate income tax base.

It is possible that losses of a corporation from its activities abroad can be deducted from the corporate income.

### **Thin Capitalisation**

Thin capitalisation refers to the situation in which a company is financed through a relatively high level of debt compared to equity.

Debt-Equity ratio is 1:3 in thin capitalization rules of Turkey.

The related party is defined as a real or legal person that has direct and indirect shareholding of more than or equals to 10% of shares or vote/dividend rights.

Except for the foreign exchange differences, interest paid over

an excess debt/equity ratio is considered as dividend distributed and will be subject to 15% dividend withholding tax.

Related expenses, foreign exchange losses and interest payments exceeding the debt/equity ratio are considered as non-deductible expenses from the point of corporate income tax.

## **CORPORATE INCOME TAX: TRANSFER PRICING**

If the corporations purchase or sell goods or services to related parties at prices that are not determined by arm's length principle, the income shall be deemed to be distributed in whole or in part as a disguised profit through transfer pricing.

Related person means the real person or legal person to which the corporation is directly or indirectly affiliated or under the influence of its own partners and the real person or legal person which are related to a corporation with respect to administration, supervision or capital of which they are related.

In cases where there is a direct or indirect right to vote or a dividend of at least 10% without a partnership relationship, the parties are deemed to be related parties.

These rates are taken into consideration collectively for related persons.

Following methods can be used when determining arm's length prices for related party transactions: (I) Comparable Uncontrolled Price Method, (II) Cost Plus Method, (III) Resale Price Method, (IV)

Transactional Net Profit Margin Method, (v) Profit Split Method and (vi) Method determined by Taxpayer.

There are no hierarchy between the methods under Turkish transfer pricing legislation.

The methods for determining the price to be applied in the purchase or sale of goods or services made with related parties may be determined by agreeing with the Ministry of Finance on the request for taxpayers. This agreement is made through Advanced Pricing Agreements. The method set forth in this manner shall be of a certainty within the time and conditions set out in the agreement not exceeding three years.

The tax penalty shall be applied at a 50% discount for unaccrued or incompletely accrued tax due to disguised profit, provided that the documentation requirements for transfer pricing are fulfilled in full and timely manner.





## CORPORATE INCOME TAX: CONTROLLED FOREIGN COMPANY AND TAXATION OF BRANCHES

### Controlled Foreign Company

Provided that a corporation or a person, who is a fully liable taxpayer, has 50% of shares or vote/dividend rights of its company abroad, that entity is considered as foreign controlled company.

The earnings of foreign controlled company whether or not it is distributed are subject to corporate income tax if the following conditions are met collectively;

- If 25% or more of total gross profit of the foreign controlled entity consists of passive income such as interest, profit share, rent, license fee, securities sales revenue other than commercial, agricultural or self-employed activity carried out by employment, capital and organization,
- If commercial profit of a foreign controlled company has less than %10 tax burden similar to corporate income tax in Turkey and
- If total gross revenue of foreign controlled company exceeds 100,000 TRY.



### Taxation of Branches

In principle, every taxpayer is required to file single tax return, even if he has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital.

Activities performed by tradesmen and artisans who do not have permanent establishments are not assumed as commercial and industrial activities, and so they are exempt from income tax.

### CORPORATE INCOME TAX: PARTICIPATION EXEMPTION

Following incomes are exempt from corporate income tax:

- The profits gained from the participation in the capital of another corporation which holds fully liable taxpayer status,
- Dividends obtained from founding shares and other usufruct shares that enable another institution subject to full tax liability to participate in profit,
- Profit shares of investment fund participation shares and venture capital investment trusts which are subject to full taxpayer fund.

The participation shares of other funds and investment trusts and the dividends from shares can not be benefited from the participation exemption.

The regulation covers the dividends from shares obtained by the corporations only by participating

in the capital of the corporations subject to full taxpayer status. There is no difference in applying the exemption whether the corporation receiving the dividend is subject to full or limited taxpayer status. Corporations that receive dividends from a non-resident corporate will be able to benefit from the participation exemption if following conditions are met:

- The participating company is a joint stock company or limited liability partnership,
- The legal and business center of the affiliated institution is not located in Turkey,
- The corporate holding the share of the affiliate owns at least 10% of the capital invested abroad,
- As of the acquisition date of the participation profit, the share of the participation is to be kept for at least one uninterrupted year,
- At least 15% of the profit of the affiliate (including the tax paid on the profit share distribution) is subject to the tax in the country in which the participating company operates; in case the main activity of participated company is financing or insurance or securities investment, under the tax legislation of the country where company operates there should at least a tax burden as effective as in Turkey.
- Participation income is transferred to Turkey until date when statutory tax return of respected year is filed.



## CORPORATE INCOME TAX: CORPORATE WITHHOLDING TAXES

### Income and Earnings of Resident Companies Subject to Withholding Tax

Withholding tax on the income and earnings, including advances, in respect of non-resident corporate income taxpayers is applied by those paying in cash, by approximation or accrual, i.e. withholding agents.

According to Art. 30 of the CITL, on payment in cash, by approximation or accrual, withholding tax is applied to income and earnings, including advances.

The income and earnings referred to in Art. 30 of the CITL which do not have rates determined by the Turkish Cabinet, are subject to withholding tax at a rate of 15%.

Withholding tax is not applied to rental payments in return for the rental of the immovables of the corporate income taxpayers referred to in Art. 1 of the CITL. Rental income received by these taxpayers is, rather, declared in the corporate income tax return for the relevant accounting period. If the association or foundation

in receipt of such rental payments is an enterprise, the rental income derived by the enterprise, as a corporate taxpayer, is not subject to withholding tax.

With regard to all forms of interest on bonds, treasury bills and securities issued by the Housing Development Administration of Turkey and by the Turkish Privatization Administration issued and paid in foreign currency during amortization, any appreciation in principal payments due to exchange rate changes is not subject to withholding tax. Withholding tax only applies to the interest paid.

Except for the income of pension funds, tax-exempt income is, under Art. 15 of the CITL, subject to withholding in the hands of companies, regardless of whether or not it is allocated.

The income of investments funds and partnerships in respect of gold and precious metal transactions on stock exchanges in Turkey derived from portfolio entrepreneurship is subject to withholding tax under Art. 15 of the CITL.

The income of investment funds and partnerships in respect of venture capital and real estate investment funds and partnerships is, in principle, subject to withholding tax

**“** *Withholding tax is not applied to rental payments in return for the rental of the immovables of the corporate income taxpayers referred to in Art. 1 of the CITL. Rental income received by these taxpayers is, rather, declared in the corporate income tax return for the relevant accounting period.*

in accordance with Art. 15 of the CITL. The withholding tax rate on such income is, however, 0% as applied by Cabinet Decree 2009 / 14594.

Dividends paid by participation banks (special type of banks in Turkey paying dividends in consideration of participation account) are subject to withholding tax (at a rate of 15%) under Art. 15 of the CITL. Dividends on joint profit and loss certificates and repos are also subject to withholding tax (both at a rate of 15%) according to the same provision.

Dividends distributed to tax-exempt corporate tax payers are subject to withholding tax at 15%.

Under Art. 15 of the CITL, bank deposit interest is subject to withholding tax at a rate of 15%.

Construction and repair progress payments covering more than one year are subject to 3% withholding tax.



### Withholding Tax on Dividend Distributions

Dividends allocated by resident corporate taxpayers to fully liable taxpayers, tax-exempt individuals and corporates, individuals and corporates with no liability and dividends allocated by resident corporates to non-resident taxable persons, non-resident corporate taxpayers (except for those that receive such distributions via a PE or permanent representatives), non-resident taxable persons and tax-exempt corporates are subject to withholding tax.

Allocated dividends are subject to withholding tax at a rate of 15% as are dividends allocated by resident corporate income taxpayers

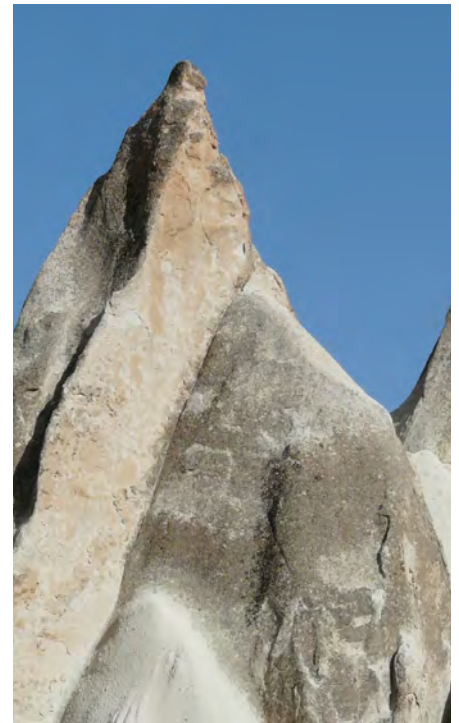
### Withholding Tax for Non-Resident Corporate Income Taxpayers

Under Art. 30 of the CITL, if a non-resident corporate income taxpayer receives:

- progress payments in respect of construction and repair works covering more than one year;
- professional income;
- income from real property; or
- income from securities, except for dividends from all forms of securities, participation stocks, and dividends in respect of the chair of directors' boards and board members referred to in Art. 75 of the PITL, the income is subject to withholding tax.

The withholding tax rates, if not otherwise provided for in a tax treaty, on some of the income of a corporate with limited tax liability are as follows:

- income from the sale of Turkish securities, including Turkish stocks: 0%;
- income from securities lending: 0%;
- interest on Turkish debt securities, including Treasury bills and bonds: 0%;
- income from repo transactions: 15%;
- dividends: 15%;
- loan interest: 0%;
- interest on commercial activities, other than the making of loans: 10%;
- income from the discounting of promissory notes and drafts: 10%;





## DOUBLE TAXATION RELIEF

Ordinary credit with overall limitation (including taxes paid by the CFC) is applicable under Article 33 of CITL.

Residents may deduct from their income tax liability foreign taxes assessed on foreign income. However, the deductions may not exceed the amount of the tax assessed on such income in Turkey.

Taxes not deducted wholly or partly in the fiscal year when the foreign income is transferred to the accounts of company in Turkey can be carried forward to the following 3 years.

### Double Taxation Relief under Tax Treaties

Turkey has a broad tax treaty network, with most treaties following the OECD Model Tax Convention.

Ordinary credit with overall limitation is applicable under most of the tax treaties of Turkey in force.



## VALUE ADDED TAX

### Liability for VAT arises;

- when a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey,
- when goods or services are imported to Turkey.

Standard VAT rate is 18%; reduced rates 1% (e.g. newspapers and magazines, basic foodstuff) and 8% (e.g. books, pharmaceuticals, medical products).

Following goods and services are subject to VAT:

- Commercial goods and services
  - Industrial goods and services
  - Agricultural goods and services
  - Independent professional goods and services
  - Goods and services imported into the country
  - Deliveries of goods and services as a result of other activities
- In some situations VAT exemptions may be applied. The list of goods and services subject to those exemptions are as follows:
- Deliveries and services made to diplomatic representatives and consulates on condition of reciprocity, international organizations with tax exemption status and to their employees
  - Exports of goods and services
  - Roaming services provided in Turkey for customers outside Turkey, subject to reciprocity provisions, in accordance with international roaming agreements
  - Contract manufacturing for clients in free trade zones
  - Petroleum exploration activities
  - Services for ships and airplanes in ports and airports
  - Machinery and equipment deliveries under the investment incentive certificate

- Transit transportation
- Banking and insurance transactions subject to Banking and Insurance Transactions Tax

Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding and junk metal, waste paper, junk plastic material deliveries are exempt from VAT: Only 50% of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 50% of calculated VAT to the tax office directly.



### VAT Credit Mechanism

- VAT shown in invoices and similar vouchers which are calculated by means of deliveries and services made to tax-payers
- value added tax paid for imported goods and services
- The value added tax shown in invoices and similar vouchers related to the inventories at the beginning of the accounting period, which belong to taxpayers who are subject to actual assesment procedure taxation

are evaluated as VAT Credit and can be deducted from VAT Amounts.

### Reverse Charge VAT

Reverse Charge VAT Mechanism is related to the calculation of VAT by resident companies over payments to abroad.

VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company.



### VAT Refund

VAT (input VAT) shown on invoices and similar documents related to the transactions which are exempt from the tax, such as:

- Exportation of goods and services,
- Exemption in vehicles, precious metals and oil prospecting activities and national security expenditure and investments made under an investment incentive certificate (IIC),
- Transit transportation,
- Diplomatic exemption

are deducted from the VAT (output VAT) to be calculated on the transactions of the taxpayer which are subject to VAT.

## OTHER TAXES

### Special Consumption Tax ("SCT")

- List 1- Petroleum products, natural gas, lubricating oil, solvents, and derivatives of solvents
- List 2- Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- List 3- Tobacco and tobacco products, alcoholic beverages
- List 4- Luxury products

are subject to Special Consumption Tax in Turkey. SCT is charged only once and different rates are applied for product groups.

Taxpayers vary by list and as follows:

- For the first SCT item, manufacturers including refineries or importers of the petroleum products,
- For the second one, traders of motor vehicles, importers for their use (not for selling) or sellers of untaxed vehicles through auction,
- For third one, manufacturers and importers of the goods or sellers of untaxed goods through auction,
- For fourth one, manufacturers and importers of the goods or sellers of untaxed goods through auction.

### Banking and Insurance Transaction Tax

All transactions and services performed by banks and insurance companies are subject to banking and insurance transactions tax (BITT) regardless of the nature of the transaction.

Bankers' certain transactions and services performed and stated in the Law No. 6802 are the subject of the tax. These are the bankers' transactions and services.

Other transactions of bankers are subject to VAT.

Banking and insurance company transactions are exempt from VAT but subject to BITT. General rate for BITT is 5%. However; it may depend on transaction type. To illustrate, 0% BITT is applied for foreign exchange transactions.

## Stamp Duty

Stamp tax is levied at a rate between 0,189% and 0,948% as a certain percentage of the document price, and for some documents as a predetermined price.

Documents subject to stamp tax include, but are not limited to, following:

- contracts
- notes payable
- capital contributions
- letters of credit
- letters of guarantee
- financial statements
- Payrolls

The Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the document. Each original document is separately subject to stamp tax.

## Property Tax

- Real estate taxes range from 0.1% to 0.6%.
- The buildings and lands in Turkey are subject to property tax.
- The tax base for the property tax is the tax value of the building/land according to the Property Tax Law No. 1319.
- It is compulsory that a property tax declaration is submitted to the related municipality where the building and land is located in case there is a reason for modification of tax value. Property tax is paid annually to local municipalities in two equal installments, the first one is paid between March and May while the second is paid in November.

## Motor Vehicle Tax

- A fixed amount is charged according to the age and engine capacity of the vehicles.
- Land motor vehicles registered to traffic bureaus or offices, also helicopters and airplanes registered to the Directorate General of Civil Aviation are subject to the tax.
- The motor vehicle taxes are paid in two equal installments, in January and July, every year.
- Motor vehicles are classified into three categories in terms of motor vehicle tax:
  - » cars, motorcycles and terrain vehicles etc.
  - » minibuses, panel vans, motorized caravans, busses, trucks etc.
  - » planes and helicopters

## Inheritance and Gift Tax

- It varies from 1% to 30%.
- Turkish citizens are subject to inheritance and gift tax on worldwide assets received.
- Resident foreigners are subject to inheritance and gift tax on worldwide assets received from Turkish citizens and on assets located in Turkey received from resident foreigners or nonresidents.
- Non-resident foreigners are only subject to inheritance and gift tax on assets located in Turkey.







*RUSF is calculated over the principal amount or interest in the use of credits from domestic or foreign source of creditor, or the cost of goods imported.*

### Resource Utilization Support Fund

The Resource Utilization Support Fund (RUSF) is one of the funds established for the promotion of investments.

RUSF is calculated over the principal amount or interest in the use of credits from domestic or foreign source of creditor, or the cost of goods imported.

RUSF is collected by Banks and transferred to the Central Bank.

Following transactions are subject to RUSF:

- Loans
- Non-cash Loans
- Credit Card Debt Installments and Credit Card Cash Advance
- Indexed and Other Indexed Loans
- Funds Funded by Participation Banks
- Foreign Loans
- Fiduciary Transactions (Faithful Transactions)
- Pre-financing Loans
- Export Factoring
- Post-financing Loans

Surcharge	Rate
Consumer loans	15%
Other loans	0%
Foreign loans received by banks and financing corporations	0%
<b>Turkish Lira loans received by persons residing in Turkey except for banks and financing corporations</b>	
If average credit term is between 0 and 1 year	0%
If average credit term is more than 1 year	1%
<b>FX Loans and Gold Loans received by persons residing in Turkey except for banks and financing corporations</b>	
If average credit term is between 0 and 1 year	0%
If average credit term is between 1 and 2 years	1%
If average credit term is between 2 and 3 years	0.5%
If average credit term is higher than 3 years	0%
Imports made by acceptance credit, deferred payment letter of credit or cash on delivery methods of payments	0% - 6%





*Incentives  
for strategic  
investments,  
large-scale  
investments  
and regional  
investments.*





# BUSINES INCENTIVES IN TURKEY

## INCENTIVES

Local and foreign investors can benefit from incentives equally in Turkey.

There are 4 types of investment schemes in the incentive system of Turkey, which are:

- General Investment Incentives
- Regional Investment Incentives
- Large Scale Investment Incentives
- Strategic Investment Incentives

There are several support instruments for investment schemes including VAT exemption, customs duty exemption and tax deduction.

Whole list of support instruments that may be used for a specific investment scheme taken from Investment Guide published by Investment Support and Promotion Agency of Turkey (<http://www.invest.gov.tr>) can be found in the following table:

SUPPORT INSTRUMENTS	General Investment Incentives	Regional Investment Incentives	Large Scale Investment Incentives	Strategic Investment Incentives
VAT Exemption	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓
Tax Reduction		✓	✓	✓
Social Security Premium Support (Employer's Share)		✓	✓	✓
Income Tax Withholding Allowance *		✓	✓	✓
Social Security Premium Support (Employee's Share) *		✓	✓	✓
Interest Rate Support **		✓	✓	✓
Land Allocation		✓	✓	✓
VAT Refund***				✓

\*Provided that the investment is made in Region 6.

\*\*Provided that the investment is made in Regions 3, 4, 5 or 6 within the framework of the Regional Investment Incentives Scheme.

\*\*\*For construction expenditures of strategic investments with a minimum fixed investment amount of TRY 500 million.



Turkey has 6 different investment regions, which are divided according to economic activity and geography. Those regions are listed in the table below:

Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
Eskişehir	Çanakkale (Bozcaada & Gökçeada excluded)	Gaziantep	Bartın	Çankırı	Bingöl
İstanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
İzmir	Edirne	Karaman	Düzce	Giresun	Dişarbakır
Kocaeli	Isparta	Manisa	Elazığ	Gümüşhane	Hakkari
Muğla	Kayseri	Mersin	Erzincan	Kahramanmaraş	Iğdır
	Kırklareli	Samsun	Hatay	Kilis	Kars
	Konya	Trabzon	Kastamonu	Niğde	Mardin
	Sakarya	Uşak	Kırıkkale	Ordu	Muş
	Tekirdağ	Zonguldak	Kırşehir	Osmaniye	Siirt
	Yalova		Kütahya	Sinop	Şanlıurfa
			Malatya	Tokat	Şırnak
			Nevşehir	Tunceli	Van
			Rize	Yozgat	Bozcaada & Gökçeada
			Sivas		

### General Investment Incentives

All investments that meet capacity conditions and minimum fixed investment amount are supported by general investment incentives. Although investors can benefit from general investment incentives for their investments made in all regions, there are different minimum investment amounts in regions. Region 1&2 require TRY 1 million minimum fixed investment amount while other regions require TRY 500,000.

Basically, 2 types of support instruments are provided by general investments incentives, which are VAT exemption and customs duty exemption.

**Customs Duty Exemption:** Investors holding an investment incentive certificate may benefit from customs tax exemption for imported equipment and machinery for their projects.

**VAT Exemption:** Investors holding an investment incentive certificate may also benefit from VAT exemption for imported or domestically purchased equipment and machinery for their projects.



### Regional Investment Incentives

There are minimum investment requirements to take advantage from regional incentives.

In this regard, the minimum investment amounts are TRY 1 million for region 1 and 2, and TRY 500,000 for other regions.

The summary of regional investments are mentioned in the following table:

SUPPORT	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
VAT Exemption	✓	✓	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓	✓	✓
Land Allocation	✓	✓	✓	✓	✓	✓
Reduced Tax Rate	10	9	8	6	4	2
SSPS* Employer's share Support Period	2-3 years	3-5 years	5-6 years	6-7 years	7-10 years	10-12 years
SSPS* Employee's share Support Period	N/A	N/A	N/A	N/A	N/A	10 years
Income Tax Withholding Allowance	N/A	N/A	N/A	N/A	N/A	10 years

\*SSPS: Social Security Premium Support

\*\*Source: Investment Guide published by Investment Support and Promotion Agency of Turkey (<http://www.invest.gov.tr>)



*Tax benefits and incentives in Technology Development Zones, Industrial Zones and Free Zones, including total or partial exemption from Corporate Income Tax, a grant on employer's social security share, as well as land allocation*

### Large-Scale Investment Incentives

12 investment subjects are determined for large scale investments in Turkey. With the minimum investment amounts, these subjects are supported by incentives in order to enhance competitiveness, technology and R&D activities in Turkey.

The table of regional investment scheme mentioned in the previous section is also applicable for large-scale investments.

In addition to this information, incentives in tax reduction and social security premium support for employer's share can be taken from one-grade lower region in the regional investment scheme for some combined regional and large-scale investments.

These investments can be either investments in Organized Industrial Zones or joint investments with at least 5 investor companies in the same sector to contribute a more integrated structure in the industry.

To exemplify, Region 5-level investment in a joint investment partnership can benefit from 2% tax rate, which is reduced tax rate for region 6-level investments.

Aforementioned investment subjects and minimum investment amounts can be found in the table below:

	Investment Subject	Minimum Fixed Investment Amount (million TRY)
1	Production of refined petroleum products	1,000
2	Production of chemical products	200
3	Harbors, harbor services and airport investments	200
4	- Automotive main industry	200
	- Automotive supply industry	50
5	Production of railway and tram locomotives and/or tram cars	50
6	Transit pipeline transportation services	
7	Electronics industry	
8	Production of medical, high-precision and optical equipment	
9	Production of pharmaceuticals	
10	Production of aircraft and spacecraft and/or related parts	
11	Production of machinery (including electrical machinery and equipment)	
12	Mining (including metal production)	

\*Source: Investment Guide published by Investment Support and Promotion Agency of Turkey (<http://www.invest.gov.tr>)





## Strategic Investment Incentives

Four conditions are required to benefit from strategic investment incentives, which are listed below:

- The local production capacity for the product to be manufactured by investment should be less than the import of the product.



- The minimum fixed investment amount for the investment should be TRY 50 Million.
- The investment should create at least 40% added value. (This condition is not required for refinery and petrochemical investments).
- Total import value for the product to be produced should be at least USD 50 Million in the last year. (These conditions are not required for non-domestic goods.).

Investments covering these conditions can be supported by the following incentives mentioned in the table below:

Support Instrument	Explanations
VAT Exemption	✓
Customs Duty Exemption	✓
Land Allocation	✓
Reduced Tax Rate	2%
SSPS* Employer's share Support Period	7 years (10 years for region 6)
SSPS* Employee's share Support Period	10 years for investments in Region 6
Income Tax Withholding Allowance	10 years for investments in Region 6

\*SSPS: Social Security Premium Support

\*\*Source: Investment Guide published by Investment Support and Promotion Agency of Turkey (<http://www.invest.gov.tr>)

## R&D INCENTIVES

### R&D Law

The R&D Law provides special incentives for R&D and design investment projects in Turkey in the case that at least 30 personnel are employed at the R&D center.

This personnel requirement can be reduced to 15 in some sectors including but not limited to software, medicines and medical devices, agriculture, food, biotechnology, information and communication technologies. Incentives in terms of R&D activities are as follows:

- 100% of R&D expenditures can be deducted from tax base
- Half of the increase in R&D and design expenditures compared to the previous year can be deducted during the year

- Income withholding tax exemption for employees
- 50% social security premium exemption for employers
- Stamp tax exemption on documents to be issued
- Customs tax exemption for products imported under R&D projects
- Techno-initiative capital for new scientists up to TRY 500,000
- Deduction of certain funds donated by public institutions and international organizations from the tax base

### Support for Technology Development Zones

Profits from software development, R&D and design activities are exempt from income and corporate taxes until 31 December 2023.

Sales of specially produced application software in Technology Development Zones are exempt from VAT until December 31, 2023.

The salaries paid to the design, support and R&D staff are exempt from all taxes until 31 December 2023.

50% of the social security premium employer's share will be paid by the state until 31 December 2023.

Stamp tax exemption is also applicable for the documents to be arranged under R&D, design and software development projects and customs duty exemption is in effect for the imported goods.



### Industrial Thesis (SANTEZ) Program

The direct financial support for new technology adaptation, process development, quality improvement and environmental change projects to be undertaken by the university partnerships is provided as follows:

- Up to 85% of the project budget can be supported by direct grants.
- Project period is 2 years; this period may be extended by 6 months.
- Personnel, travel, consumables, machinery equipment, consultancy and related services procurement, transportation, insurance and customs expenses are supported.
- The application file can be approved within 4 months; the project audit committee works independently.

### TUBITAK (Scientific and Technological Research Council of Turkey) Support

TUBITAK compensates or grants R&D related expenses and capital loans for R&D projects. The types of R&D projects that can be granted is listed below:

- Concept development
- Technological research and technical feasibility studies
- Laboratory studies for concept design transformation
- Design and draft studies
- Prototype production

- Construction of pilot installations
- Test production
- Patent and license studies
- Activities related to post-sale problems caused by product design

### Technology Development Foundation of Turkey Loans

Technology Development Foundation of Turkey (TTGV) provides long-term interest-free loans for agricultural technologies, health technologies, education technologies and R&D projects to improve energy efficiency.

The scope of the TTGV program is as follows:

- Project support period is at least 1 year but limited with maximum 3 years.
- The upper limit for support to be provided is USD 3 million and the lower limit is USD 250,000.
- Support will be provided with the participation of 50% TTGV and 50% project coordination company.
- The project reimbursement period is 4 years with a grace period of one year after the operation is over.



**Technology Development Foundation of Turkey (TTGV) provides long-term interest-free loans for agricultural technologies, health technologies, education technologies and R&D projects to improve energy efficiency.**



*The Excellence Centers Program focuses on the new investments for manufacturing industry, call centres and data centres and aims to reactivate unfinished or partially completed investments due to inadequate working capital or some other reasons.*

## EXCELLENCE CENTERS

Turkish Government has recently released a new centre of attraction program to accelerate the domestic and foreign investments in the relatively less developed areas of the country.

The program focuses on the new investments for manufacturing industry, call centres and data centres and aims to reactivate unfinished or partially completed investments due to inadequate working capital or some other reasons.

Accordingly, incentives available under the program are as follows:

- Capital support to obtain investment land
- Turnkey factory building construction support
- Interest free investment loan support
- Interest-reduced business loan support
- Call and data centre support
- Support for removing of manufacturing facilities
- Ownership transfer with limited rights of land, factory building and public immovables to the investors

- Consulting service support
- Participation in companies and leading the company establishments by the Development Bank of Turkey in the cities where the program is applicable.
- To benefit from the program, fixed investment of 2 Million TRY (approx. USD 500,000) with at least employment of 30 people is required for the manufacturing industry whereas it is only required that 200 people are employed by the call centres and 5,000 square meter white area is occupied by the data centres.

It is not required for call centre and data centre investments to meet minimum investment amount of 500,000 TRY (approx. USD125,000) in the regions where they are located.

To receive the cash for removing the manufacturing units to the cities within the scope of excellence centre program, the business owner should employ at least 200 people and be conducting business activities last 2 years.



## FREE TRADE ZONES

Free Trade Zones are private areas located outside the boundaries of Turkish customs territories, although they are located within the political boundaries of the country.

In these zones, goods may be landed, stored, handled, manufactured, or reconfigured, and re-exported under specific customs regulation.

Free Trade Zones are not subject to customs duty.

There are 21 Free Zones in Turkey close to the EU and Middle East markets.

### Advantages of Free Trade Zones

- 100% exemption from customs duties and other assorted duties.
- 100% exemption from corporate income tax for manufacturing companies.
- 100% exemption from value-added tax (VAT) and special consumption tax.
- 100% exemption from stamp duty for applicable documents. 100% exemption from income tax on employees' wages (for companies that export at least 85% of the FOB value of the goods they produce in the free zones).
- Goods can remain in free zones for an unlimited period.
- Companies are free to transfer profits from free zones to abroad as well as to Turkey, without any restrictions.

## TECNO PARKS

The aim of Techno Parks is to support R&D activities and attract high-tech investments to Turkey.

There are currently 50 Techno Parks operating in Turkey.

Advantages of techno parks are as following:

- Profits derived from software development, R&D, and design activities are exempt from income and corporate taxes until December 31, 2023.
- Sales of application software developed exclusively in techno parks are exempt from VAT until December 31, 2023. Examples include software for systems management, data management, business applications, different business sectors, the internet, mobile phones, and military command control.
- Wages of R&D, design and support personnel employed in the zone are exempt from all taxes until December 31, 2023. The number of the support personnel covered by the exemption cannot exceed 10 percent of the number of the R&D personnel.
- Investments for the production of the technological products obtained as a result of the R&D projects conducted in the zone may be made in the techno parks if deemed suitable by the operator company and allowed by the Ministry of Science, Industry and Technology.

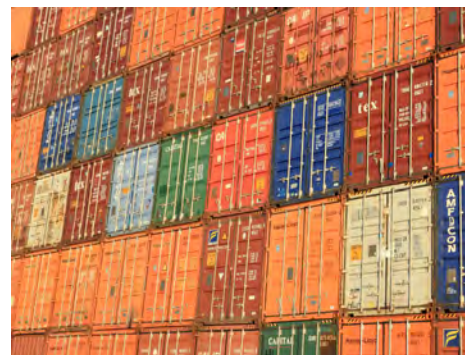
- 50 percent of the employer's share of the social security premium will be paid by the government until 31.12.2023.
- Customs duty exemption for imported products and stamp duty exemption for applicable documents within the scope of R&D, design, and software development projects.

## EXPORT SUPPORT

The aim of the Inward Processing Regime is to ensure that exporters can purchase inputs for export production at world market prices, not subject to trade policy measures as well as customs duties, including VAT.

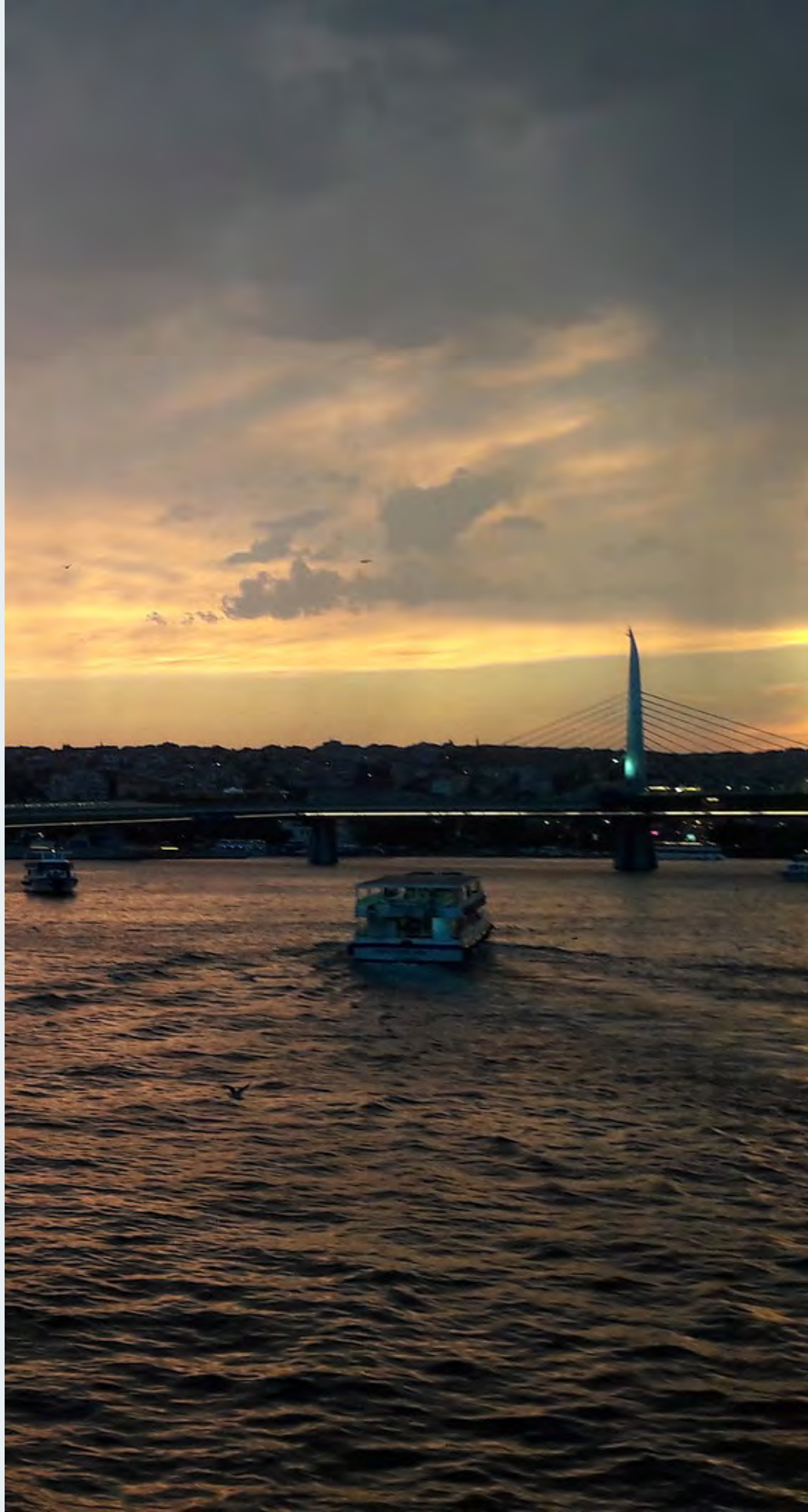
The advantages of Inward Processing Regime is listed below:

- 100 percent Customs Duty Refund
- 100 percent VAT Refund
- 100 percent Special Consumption Tax Refund
- 100 percent Resource Utilization Support Fund Refund
- 100 percent Stamp Tax Refund





*Turkey has  
been an at-  
tractive mar-  
ket for foreign  
investors with  
outstanding  
business op-  
portunities.*

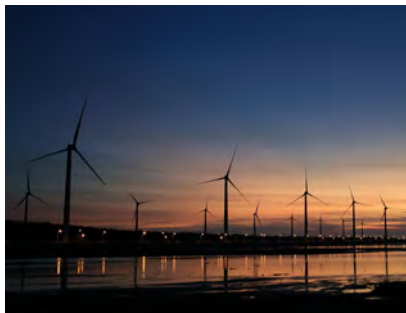


# OPPORTUNITIES IN TURKEY FOR FOREIGN INVESTORS

## ENERGY SECTOR

Turkey has been experiencing rapid demand growth in all segments of the energy sector for decades. Over the last decade, Turkey has been the second country, after China, in terms of natural gas and electricity demand growth.

Projections show that demand growth trend will continue. The limits of Turkey's domestic energy sources in light of its growing energy demand have resulted in dependency on energy imports, primarily of oil and gas. At present, around 25% of the total energy demand is being met by domestic resources, while the rest is being provided from a diversified portfolio of imports.



The primary aim of Turkey is to realize its own energy security. To this end, Turkey aims to

- diversify its energy supply routes and source countries,
- increase the share of renewables and include the nuclear in its energy mix,
- take significant steps to increase energy efficiency,
- contribute to Europe's energy security.

The Turkish governments provides specific incentives for electricity generation investments based on renewable energy sources, which is listed below:

- 100% exemption from Customs Duty and VAT
- 10-year Tariff Guarantee (FiT) application
- Network connection priorities
- Lower license fees
- License exemption in exceptional circumstances
- Various practical ease for project preparation and land acquisition

## MINING AND METAL SECTOR

The total production value of the sector, which was USD 2.6 Billion in 2003, reached USD 13.2 Billion in 2014.

Turkey's young, dynamic and educated workforce offers a highly-qualified workforce.

Turkey's advantages for the mining industry players relatively low logistics and drilling costs, proximity to key markets, attractive government incentives and highly competitive taxes.

Under regional investment incentives system, the most advantageous incentives are offered in less developed regions.

The mining sector is an exception to this system, and regardless of where it occurs, most of the investment in the mining sector is supported by incentives offered to Region 5.

In this regard, Mining and metal industry in Turkey has a lot to offer for foreign investors.



## REAL ESTATE AND INFRASTRUCTURE SECTOR



Projects such as Marmaray, Kanal Istanbul, the third Bosphorus bridge and the third airport in Istanbul, especially the urban transformation works towards Istanbul and mega projects, are leading the future activities in the infrastructure sector of Turkey.

It is estimated that about USD 6.7 Million dwellings will be demolished and rebuilt throughout the country in the next 20 years. This means an average of 334,000 houses a year.

Approximately USD15 Billion of funding will be required each year for urban transformation projects.

The total budget allocated for this initiative, in which the private sector takes the lead, is USD 400 Billion.

Moreover, Turkish & foreign companies frequently cooperate in Middle East for Construction Projects.

For foreign construction and/or infrastructure companies, Turkey is the best place to invest in the geographical region.





*Turkey is at the crossroads of global trade, linking East and West with Asia and Europe. The advantageous geographical location of Turkey, which provides easy access to Eastern Europe, Central Asia, the Middle East and North Africa, allows the country to serve as a base for freight transport in the region.*

## TRANSPORTATION AND LOGISTICS SECTOR

Turkey is at the crossroads of global trade, linking East and West with Asia and Europe.

Public and private sector infrastructure investments in the last decade have significantly improved the logistics services offered in Turkey.

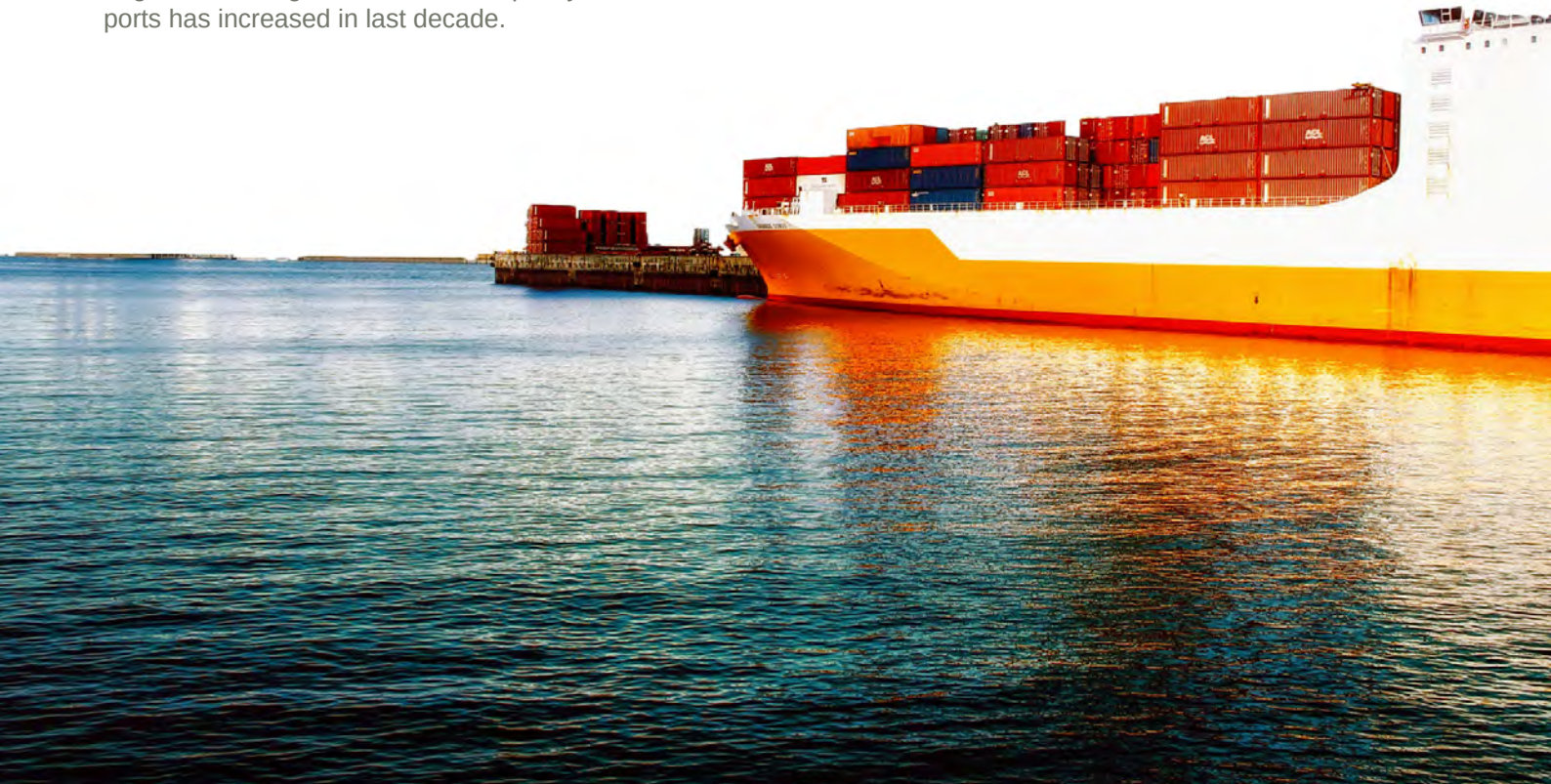
A large number of new airports have been built, with access to all parts of the country with motorways.

In addition, the emerging high-speed train network has begun to link large cities and the capacity of Turkish ports has increased in last decade.

The advantageous geographical location of Turkey, which provides easy access to Eastern Europe, Central Asia, the Middle East and North Africa, allows the country to serve as a base for freight transport in the region.

The Turkish logistics industry has a 12-13% share in the country's GDP with its current volume.

In this regard, transportation and logistics sector in Turkey has a lot to offer for foreign investors.





Centrum Consulting was established in 2016 as the first boutique firm of Turkey specialized in international consulting and transfer pricing.

Our firm offers services as an independent consulting company in the field of international consulting and transfer pricing for both Turkish and foreign enterprises.

We under the roof of Centrum Consulting convey our experience in international consulting and transfer pricing to a brand new level.

Centrum Consulting provides tailor-made services through its experienced partners who have worked in the Ministry of Finance, largest Turkish group of companies and Big 4 companies for many years. Thus, we believe that we combine our local knowledge and our international experiences with a unique perspective.

Centrum Consulting maintains its operations within its strong international network and serves as your reliable business partner to reach experienced professionals all around the world.

## WHAT WE DO

### Our Job Is International Consulting And Transfer Pricing

The main reason for our customers' trust in us is that we only do what we have expertise in. Our y pays attention to specializing as the most innovative consulting company in Turkey and our main distinctive aspect is that we only focus on the areas in which we are the most specialized: international consulting and transfer pricing.

### We Raise the Bar on Consulting

One of our most important and unique aspects is that all our services are offered directly by our firm partners. We are distinguished because we offer our consulting services in combination with the knowledge and experience we have acquired from the Ministry of Finance, Big 4 companies and the academic world

### We Offer Tailor-Made Services Unique for You

Briefly, we define ourselves as a pioneering company which leads developments. We are a boutique firm and conduct studies in international consulting and transfer pricing field which are specific to our customers' needs. Centrum Consulting aiming for offering services with the delicacy of a skilled tailor brings a completely different perspective to its fields of specialty. In this way, we can offer "tailor made" services unique for our each clients.

### We Offer Practical Solutions

All our services include practical solutions and we offer projects which provide considerable value to your operations without overloading you with technical details. In other words, every single service we offer and every work we do facilitate the life of our clients.

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Managing Partner

Sworn-in Financial Advisor

[burcin.gozluklu@centrumauditing.com](mailto:burcin.gozluklu@centrumauditing.com)

+ 90 216 504 2066

## BURÇİN GÖZLÜKLÜ

Burcin serves as Sworn-in Financial Advisor and the founder of Centrum since the beginning of 2015. He also serves as the Tax Associate of a Netherlands based company, Trade & Investment Center BV, and as the Strategic Partner of a Dutch company, Van Campen/Liem BV.

Burcin worked as a tax inspector within the Turkish Ministry of Finance Tax Inspectors Board for 10 years. Beginning from the mid 2008, he was appointed as the Secretary General of the Turkish Accounting Standards Board (now named as Public Oversight Board), and took the role of adopting the international accounting standards (IFRS/IASs) into Turkish legislation for 3 years. During this period, he participated as a member in the Asian - Oceanian Standard Setters Group (AOSSG) and as an observer member in the World Standard Setters (WSS) Group. He took an active role in drafting the new Turkish Commercial Code (TCC) and represented Turkey with respect to accounting and auditing related regulations of the new TCC during the negotiation process of the EU Acquis.

He left office in public sector in 2010, and took office as the Auditing Group Coordinator of Koc Holding Inc., which is the biggest conglomerate and the only Top 250 Fortune's Global Listing company in Turkey with nearly 190 companies and 60 billion dollars of annual gross turnover. During the last three years until he established Centrum, Burcin served as the tax management coordinator of Koç companies responsible from the tax advisory and management of the group firms.

He acted as a member in TUSIAD (Turkish Industry and Business Association) Sub-Working Committee on Intellectual Property Rights during the period 2011-2014 and as a TUSIAD representative in the Public Oversight Board's Accounting Standards Review Committees between 2011 and 2013.

He has been serving as the executive board member of the International Financial Management Association of Turkey since 2013. Burcin received his BA degree in Business Administration from the Middle East Technical University, Faculty of Economic and Administrative Sciences.

He still participates in many international conferences and round tables as a well-known expert speaker in his profession.



Partner, Consulting Services Leader

[ramazan.bicer@centrumauditing.com](mailto:ramazan.bicer@centrumauditing.com)

+90 533 713 6153

## RAMAZAN BİÇER

Ramazan is a partner leading transfer pricing services at Centrum Consulting. He has 11 years Turkish Tax Authorities experience as transfer pricing advisor and worked at central level. In his eleven years experience at Turkish tax authorities, he took the role of leading transfer pricing teams; advising large tax payers in various industries.

Ramazan has involved in the drafting of Turkish transfer pricing legislation and visited numerous tax authorities within the transfer pricing study visits. He has also attended the OECD Working Party 6 on Transfer Pricing as a Turkish delegate.

Following his departure from Turkish Tax Authorities, he joined in PricewaterhouseCoopers (PwC) in 2013 and worked therein as senior transfer pricing manager for 3 years. In his PwC period Ramazan managed a wide range of transfer pricing and international tax projects.

He served a large number of Turkish and foreign multinationals at PwC and his transfer pricing services included transfer pricing documentation, transfer pricing consultancy, negotiations with Turkish Tax Authorities during APAs, transfer pricing audit services.

He published many articles in the field of transfer pricing both in Turkish and international well-known publications. Ramazan is the author of a transfer pricing book named as 'Transfer Pricing Practices Guidelines'.

Ramazan holds an Advanced LL.M. Degree in International Tax Law from Leiden University in the Netherlands.



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